Think 7-Eleven...

7-ELEVEN, INC. 2004 ANNUAL REPORT

Now, think again.

7-Eleven® deli-style sandwiches are made with specialty meats and cheeses, artisan breads and spicy sauces. They're a tasty value!

Unique products have customers coming back time and again. TWIZZLERS® candy straws were jointly developed with Hershey's. The strawberry-flavored SLURPEE® drink goes with the strawberry-flavored straw for a complete flavor experience.

7-Eleven brownies are freshly baked and delicious. Enjoy with an icy, cold beverage or steaming cup of coffee.

And again.

7-Eleven's sponsorship of INDY RACING LEAGUE® (IRL) driver Tony Kanaan, 2004 Championship winner, led to the successful launch of proprietary products, such as AriZona® iced tea.

Every 7-Eleven wrap is made with flavored tortillas, fresh vegetables and deli meats. With their robust flavor, wraps make a wholesome on-the-go meal.

Made from original recipes, our breakfast pastries are tasty and popular for dessert, too.

Exclusive items like sugar-free Mad-Croc Energy Drink are offered at stores nationwide, giving customers value-priced, quality alternatives to national brands.

7-Eleven's self-serve coffee bar offers flavorful syrups like sugar-free vanilla or hazelnut so customers can customize their brews and start the day off right.

And again.

7-ELEVEN SPEAK OUT WIRELESS prepaid service offers value-priced cell phones and minutes. Phones come instantly activated out of the box, with a preassigned phone number and loaded with airtime. Now that's service!

Health-conscious shoppers have more refreshing drinks to choose from, whether they support the immune system, boost energy or quench thirst. 7-Eleven's proprietary flavored sparkling waters are an extension of our QUALITY Classic Selection spring water line.

A popular new video game arrived at stores last fall. Microsoft's Xbox game sequel, Halo 2, was sold in time for the holidays, along with a Mountain Dew-flavored SLURPEE drink in 32-ounce collectible cups.

Our extensive line of financial services includes a 7-ELEVEN E-CASH™ prepaid MasterCard® card, which customers purchase and reload conveniently at 7-ELEVEN® stores.

Innovative packaging attracts shoppers. In this case, it also improves product quality with aluminum bottles that keep beer colder longer for customers.

7-Eleven premium cookies are perfect for an afternoon treat or pick-me-up snack.

We work to exceed your expectations, every time you visit a 7-ELEVEN® store.

7-Eleven makes an art of giving customers what they want by navigating the globe to explore lifestyles and trends. We then work with suppliers to create innovative products and services that exceed expectations while contributing to our bottom line. This process makes us a leader in convenience retailing.

A new level of convenience.

2004 Financial highlights

7-Eleven, Inc. achieved total revenue growth of 13.1% in 2004 and reported total revenue of $12.2 billion, a new record for its convenience stores.

With a network of 5,800 stores in the United States and Canada, we serve 6 million customers a day. To meet the changing needs of these customers, 7-Eleven offers an unmatched selection of fresh products, fountain drinks, coffee, cold beverages, beer, cigarettes and other convenience items.

Merchandise

Through the use of technology, franchisees and store managers have the ability to continuously customize their product mix. Keeping our product assortment fresh and exciting contributed to our 11th-straight yearly improvement in same-store merchandise sales in 2004. Total merchandise sales rose $517.9 million, or 7.0% over 2003, to $7.9 billion. Growth was driven primarily by a 5.3% increase in U.S. same-store merchandise sales for the year, on top of a 3.2% increase in 2003. Key contributors to the improvement included cigarettes, hot and cold beverages, beer and fresh food.

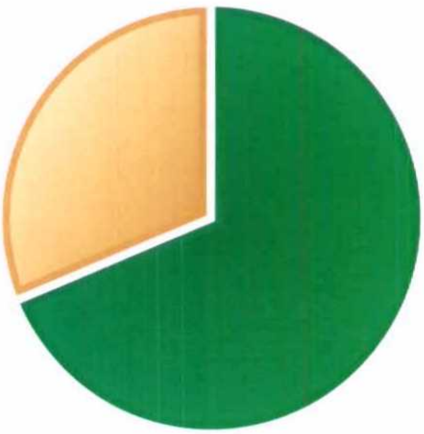
Gasoline

We sell gasoline 24 hours a day at 2,432 locations in the United States and Canada. By providing pay-at-the-pump capability at the majority of stores, gasoline is part of the convenience experience at 7-ELEVEN® stores.

Our gasoline business performed well throughout 2004 despite a challenging market and record-high oil prices. Daily management of retail gasoline prices at every store produced a 12th consecutive year of strong gasoline margins, with a 15.3-cent gross profit on each gallon of gasoline for a record total of $342.4 million. Total gasoline gallons sold rose 6.4% to 2.2 billion gallons for the year. Gasoline sales increased $872.8 million to $4.2 billion, or 26.0%, over 2003. The average price of a gallon of gasoline rose 30 cents year over year in 2004. Average per-store-gallon sales, a measure of year-over-year performance, grew 4.9%.

2004 Total Sales

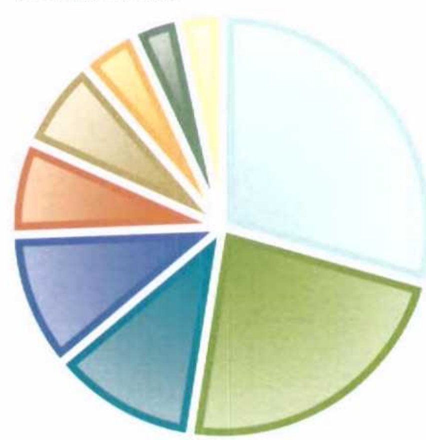
(U.S. and Canada)



Merchandise Sales *65.3% ($7.9 billion)*
Gasoline Sales *34.7% ($4.2 billion)*

2004 Merchandise Sales

(U.S. and Canada)



Tobacco *29.1%*
Beverages *23.5%*
Beer/Wine *11.2%*
Candy/Snacks *10.0%*
Fresh Foods *7.7%*
Non-Foods *6.9%*
Dairy *4.4%*
Services *3.7%*
Other *3.5%*

Financial Highlights

(Dollars in millions, except earnings per share and store data)	2002 *restated*	2003 *restated*	**2004**
Merchandise Sales [1]	$ 6,983.2	$ 7,375.2	**$ 7,893.1**
Gasoline Sales [1]	2,744.8	3,355.1	**4,227.9**
Total Net Sales [1]	9,728.0	10,730.3	**12,121.0**
Other Income [1]	102.8	97.0	**125.1**
Total Revenues [1]	9,830.8	10,827.3	**12,246.1**
Core Earnings [1, 2, 3]	75.0	86.9	**114.7**
Net Earnings [3, 4]	11.6	62.1	**96.5**
Core Earnings Per Common Share (Diluted) [1, 2, 3]	0.68	0.76	**0.95**
Net Earnings Per Common Share (Diluted) [3, 4]	0.12	0.57	**0.81**
EBITDA [5, 6]	419.6	503.9	**559.6**
Weighted Average Shares Outstanding (Diluted) [7]	111.4	127.0	**129.4**
As of Year-End:			
Shareholders' Equity [3]	157.1	331.6	**464.5**
U.S. Same-Store Merchandise Sales Increase [8]	3.1%	3.2%	**5.3%**
Gasoline Gallons [1]	1,976.4	2,106.7	**2,241.3**
Number of 7-Eleven Stores (U.S. and Canada)	5,823	5,784	**5,799**
Total 7-Eleven Stores Worldwide	24,434	25,796	**27,516**
Total Sales in 7-Eleven Stores Worldwide	$ 32,651	$ 36,524	**$ 40,877**

1 *Prior-year amounts on the consolidated statements of earnings have been reclassified to discontinued operations to conform to the current-year presentation in accordance with SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets."*

2 *Core earnings and core earnings per diluted share have been adjusted to exclude unusual items, cumulative accounting changes and discontinued operations.*

3 *In December 2004, we revised our accounting for depreciation of leasehold improvements and restated prior years to adjust the amortization expense of certain of our leasehold improvements to be the shorter of the economic useful life or the lease term as defined by SFAS No. 13, "Accounting for Leases." As a result, the opening balance of shareholders' equity as of December 31, 2001, was reduced $5.3 million for the cumulative effect of the after-tax increase in prior years' depreciation expense, and years ending December 31, 2002, and 2003, were restated accordingly to be consistent with our revised accounting for depreciation of leasehold improvements (see Note 1).*

4 *Net earnings in 2002 included an after-tax cumulative effect of accounting change of $(28.1) million in connection with the adoption of SFAS No. 143, "Accounting for Asset Retirement Obligations." Net earnings in 2003 included an after-tax cumulative effect of accounting change of $(10.2) million in connection with the adoption of FASB Interpretation No. 46, "Consolidation of Variable Interest Entities – an Interpretation of ARB No. 51," ("FIN 46"). Net earnings in 2004 includes an after-tax cumulative effect of accounting change of $(5.1) million in connection with the adoption of a revision to FIN 46, "Consolidation of Variable Interest Entities – an Interpretation of ARB No. 51 (revised December 2003)" ("FIN 46R").*

5 *Prior-year amounts have been reclassified to conform to the current-year presentation in accordance with the adoption of FIN 46R in 2004.*

6 *EBITDA is defined as earnings before net interest expense, income tax expense, depreciation and amortization and cumulative accounting changes.*

7 *In 2002, the shares in connection with the 1995 Convertible Quarterly Income Debt Securities (QUIDS) were antidilutive to earnings per common share and were not assumed converted for weighted average shares outstanding.*

8 *U.S. same-store merchandise sales increase in 2004 of 5.6% was adjusted for leap year to be comparable to prior years.*

Shareholder's letter

Dear Fellow Shareholders:

We made 7-Eleven a stronger company in 2004, successfully balancing the need for continued improvement in near-term results with the goal of transforming our infrastructure for long-term growth.

A same-store merchandise sales increase of 5.3% for the year and stable gasoline gross profit was achieved even though consumers' disposable income was affected by record-high oil prices. Our 6 million daily customers saw continued improvements in product assortment, quality, value, store cleanliness and service during the year. As a result, they spent greater amounts in our stores, contributing to the steady improvement in our performance. By year-end we marked our 33rd consecutive quarterly increase in U.S. same-store merchandise sales.

Breakfast treats

Underlying the sustained sales improvement is our Retailer Initiative strategy. This "pull" approach enables the store operators to respond to the changing needs of customers through deletion of slow-moving stock, improved forecasting of high-velocity items and introduction of new products. To complement this strategy, we introduced 2,500 new items throughout the year. Many of these items were proprietary products or exclusive to 7-Eleven, which contributed to our overall results.

The sale of our Cityplace headquarters building coupled with growth in operating cash flow gave us the ability to retire $449 million in debt. As a result, we significantly strengthened our balance sheet and reduced interest expense. While cost reduction is an ongoing focus, we also reinvested in the business through technology enhancements, store upgrades and new store development. Overall, we advanced our long-term growth initiatives and a new level of convenience emerged at 7-Eleven.

We produced the following results in 2004:

- Core earnings grew at a double-digit pace to $114.7 million, a 32.0% increase over 2003.
- Total revenues rose to a record $12.2 billion.
- Merchandise sales increased to $7.9 billion, up 7.0% from 2003.
- Merchandise gross profit grew to $2.8 billion, an increase of 8.3% from prior year.
- U.S. same-store merchandise sales grew 5.3%, on top of 3.2% in 2003.
- Gasoline gallons sold increased to 2.2 billion, with a 15.3-cent-per-gallon margin.
- Debt was reduced by $449 million, or around 25%.
- We reached a global store count of 27,516 stores.

The investment community has noticed our progress.

7-Eleven's stock performance outpaced the major indices, returning more than 45% to shareholders in 2004.

While pleased with these accomplishments, our work is just beginning. We've been building a company with sustainable competitive advantages that can deliver consistent improvement year after year. The competition is not standing still and customers' needs continue to change, so the transformation of 7-Eleven must continue to accelerate.

Model Market ... Teaching Retailer Initiative

Retailer Initiative is our people using the proprietary tools and infrastructure of 7-Eleven to improve their job of serving the customer. Our sixth yearly increase in merchandise inventory turnover reflects our effective use of these tools.

To further educate our organization on the practice and benefits of Retailer Initiative, we developed a "model market" program. The primary focus of this approach is extensive training of field support staff and personnel at the stores. By year-end, we had established 58 model markets representing 1,400 stores. Each of these stores is practicing improved merchandising and advanced order-writing techniques.

Model market stores are demonstrating meaningful results, outpacing non-model market stores in average per-store merchandise sales, gross profit, inventory turnover and operating results. During 2005, this program will remain a top priority for 7-Eleven, better positioning us for long-term growth.

New franchise agreement signing

With franchisees operating over 3,400 7-ELEVEN® stores in the United States, their adoption of our Retailer Initiative

"...We advanced our long-term growth initiatives and a new level of convenience emerged at 7-Eleven..."

strategy is critical to our combined success. A new franchise agreement was developed with franchise participation, and over the course of last year we signed 95% of the total franchise system on the new agreement. This agreement further aligns our common interests and enhances the ability to leverage the existing infrastructure and scale. It represents an important milestone in the successful execution of our Retailer Initiative strategy.

Enhanced Use of Technology ... RIS

Our proprietary retail information system (RIS) enables improved retail decision-making at every store by capturing changes in purchasing patterns. Every day, data from 12 million point-of-sale line items and other information is consolidated within a four-hour window. By 7 a.m. each day, that data is available to our field staff and merchandising team to work with individual stores for category optimization. By placing the power of ordering in the hands of store personnel, we are achieving better in-stock performance and improved product assortment decisions. We made substantial system improvements last year, upgrading the servers in each store and providing enhancements for training, forecasting, ordering, inventory and management reporting. During 2005, we plan to add a new mobile operations terminal (MOT) and scanner to further improve stores' ordering and forecasting capability. The continued enhancements to RIS will make store operators more effective in their practice of Retailer Initiative and ensure the right product at the right store at the right time.

WORLD OVEN® pies

New Product Development ... Innovation

7-Eleven is leading the industry by setting new convenience standards, always searching for ways to provide added convenience to customers' daily lives from the introduction of delicious fresh foods to the latest technology in prepaid services. By researching global trends and local preferences, we can develop products that differentiate 7-Eleven. Product innovation covered a wide range of offerings in 2004, including the test of a new aluminum beer bottle with Anheuser-Busch and an exclusive Jessica Simpson CD with Sony Music.

Opportunities for new product development in two exciting categories, fresh food and services, will continue to drive 7-Eleven.

Deli-style sandwiches

We are uniquely positioned to provide quality, value and portability for consumers' fresh food needs. During 2004, our obsession with quality led to, among other things, better

breads, bold-flavored condiments and upgraded product packaging. As a result, fresh food sales grew in the mid-teens over 2003, building momentum for more progress this year and beyond. With its long-term growth potential, fresh food will continue to be a key focus.

INDY RACING LEAGUE
branded merchandise

Our proprietary fresh food offerings are made possible by the network of dedicated commissaries, bakeries and combined distribution centers serving our stores. Specialty sandwiches, salads, donuts, muffins and pastries are delivered daily to 7-ELEVEN® stores by this exclusive distribution network, allowing us to constantly distinguish our product mix. During 2004, the 24th combined distribution center opened supporting the Seattle and Portland markets. With this opening, 86%, or nearly 5,000 stores, are now served with daily deliveries.

Service offerings were expanded in 2004. 7-ELEVEN SPEAK OUT WIRELESS℠ service was a successful combination of simplicity and value. Phones are instantly activated, ready for use right out of the box. The cost of airtime is the same regardless of denomination purchased, and expiration dates are a market-setting 365 days.

We acquired from American Express Company the ATM business deployed in approximately 5,500 7-ELEVEN® stores, which complements our plan to accelerate growth in services and provides greater flexibility in our future product offerings.

Selected third-party gift cards

"With our broad reach, 7-Eleven is uniquely positioned to provide quality, value and portability for consumers' fresh food needs."

Our VCOM® kiosk continues to provide an enhanced assortment of financial services at around 1,000 stores. A new check-cashing provider, bill payment services, and direct partnerships with temporary labor agencies were added in 2004. We launched our 7-ELEVEN E-CASH® prepaid MasterCard® card, first at our VCOM® kiosk, then over the counter at all stores. This product allows consumers the convenience of a prepaid card anywhere MasterCard® is accepted.

The convenience customer's needs are constantly changing and 7-Eleven is committed to changing with them.

Gasoline ... a Steady Contributor

7-Eleven's retail gasoline business performed remarkably well in a year that saw unprecedented increases in retail gasoline costs. For the second consecutive year, gasoline gross profit per gallon exceeded 15 cents. Solid margin, combined with 6.4% growth in gallons sold, contributed to a record level of gasoline gross profit. This marks the 12th consecutive year of gasoline margins around the 13-cent-per-gallon level or higher. Our gasoline business is managed as a convenience need, and the daily management of retail prices at each store will continue to drive our steady performance.

The company's 20-year supply agreement with CITGO Petroleum Company expires in 2006. 7-Eleven intends to grow its gasoline business with the best possible structure and is evaluating its range of alternatives.

7-Eleven Store Growth

Worldwide, a new 7-ELEVEN® store opens approximately every five hours. Growth of the 7-ELEVEN® brand reached 27,516 stores in 2004, with the net addition of more than 1,700 licensed stores. Early in 2004, we announced that the Ministry of Commerce in the People's Republic of China approved the formation of a joint venture that by year's end was operating ten 7-ELEVEN® stores in Beijing.

Store growth in the United States and Canada was slower in 2004 as we fine-tuned our store model. One of our newer store offerings is an "urban" store, a walk-up location in high-density areas that is typically smaller (approximately 1,500 square feet) than a traditional convenience store. These stores can be developed more quickly with sales growing at a faster pace (especially in fresh foods), and returns are higher. With greater confidence in our portfolio of store options, we plan to increase domestic store growth in 2005. During this year we anticipate adding as many as 150 new stores.

Driving Continuous Improvement in 2005

Last year's significant achievements are due to the hard work of our employees, franchisees and licensees who have embraced our company's initiatives. I want to extend my sincere appreciation for their dedication and contributions to the success of 7-Eleven.

We begin 2005 with confidence and a commitment to all of

that lie ahead. Our Retailer Initiative strategy is producing sustainable merchandise sales increases and profit growth.

In today's marketplace, 7-Eleven can outperform by executing our strategic plan, improving our business model and aggressively pursuing our growth initiatives. At 7-Eleven, employees, franchisees and licensees all have the passion to strive to be better at what we do every day, in meeting our obligations to customers, suppliers and ultimately, you, our shareholders. We hope you share our confidence in the promising future of 7-Eleven.

Sincerely,

James W. Keyes

James W. Keyes

President and Chief Executive Officer

Edward W. Moneypenny *Senior Vice President and Chief Financial Officer*

Gary R. Rose *Executive Vice President and Chief Operating Officer*

James W. Keyes *President and Chief Executive Officer*

7-Eleven: providing convenience to make life easier

Every day 20 million customers visit 27,500-plus 7-ELEVEN® stores in the U.S., Canada and 17 international markets. And every day employees, franchisees and licensees at these stores greet their patrons with freshly brewed coffee, newly baked breakfast items, hand-prepared sandwiches, on-the-go meals, growing selections of beverages and snacks, steadfast service and a smile.

These are people pressed for time who rely on their neighborhood 7-ELEVEN® store for quality merchandise and convenience, whether they live in downtown Tokyo or the suburbs of Dallas.

2,500 New products introduced at 7-ELEVEN® stores in 2004

During 2004, customers were resilient in the face of higher gasoline prices and continued their daily purchases at 7-Eleven. We attribute this loyalty to the quality, selection and value of our products, achieved through constant reexamination of our product assortment and a desire to surpass the expectations of our customers.

We introduced some 2,500 new items in 2004, contributing to a 5.3% rise in U.S. same-store merchandise sales, and completed our 33rd consecutive quarterly increase in same-store merchandise sales. This record translated to 7.0% annual growth in total merchandise sales, an increase of $517.9 million to $7.9 billion.

Start Your Morning at a 7-ELEVEN® Store

7-Eleven coffee is a familiar, comforting sight as people share morning camaraderie at the coffee bar. But if you think a simple cup of java is all we have to offer, you're in for a pleasant surprise.

Flavored Coffee Awakens Sales

Imagine the aroma of a robust Dark Mountain Roast blend or flavors like French vanilla, chocolate and toasted pecan. You don't have to stop at a gourmet coffee shop to enjoy these satisfying flavors. Simply drop in at your local 7-Eleven.

Throughout the year, 7-Eleven launched new gourmet flavors of coffee, cappuccino and hot cocoa. Flavors included Chocolate Truffle, Macadamia Coconut and Spiced Pumpkin Latte Cappuccino. And we put a spin on old-fashioned hot cocoa with the rollout of Hershey's® S'Mores® and York® Chocolate Mint Hot Chocolate flavors.

Great-tasting flavored coffees were introduced last year

The new choices play to consumers' preference for high-end coffees and complement the 7-ELEVEN CAFÉ COMBINATIONS℠ program. Toppings, like chocolate and mini-marshmallows, and sugar-free and nonsugar-free syrups gave patrons choices for customizing their brews. In addition, our new Solo® thermoformed cup with its easy-to-snap-on top and reclosable sip hole vastly improved the coffee drinking experience.

The end result: 2004 hot beverage sales increased 9%. Not only are we selling more cups of coffee, but customers are trading up to larger sizes of our indulgent blends.

At breakfast...


Gourmet coffees


Delicious donuts


Tasty muffins

At lunch…

Deli-style sandwiches

Appetizing sandwich wraps

Nutritious juices

Breakfast on the Run Never Tasted so Good

Gourmet hot beverages aren't the only changes delighting morning customers. We're expanding our line of breakfast options, including tempting donuts, muffins, breakfast biscuits and pastries, and creating items like our French toast version of the 7-ELEVEN® Go-Go Taquito®. Morning customers have come to realize that 7-Eleven can provide what they need throughout the day.

24 Combined distribution centers (CDC) serve 5,000 7-ELEVEN stores

Our Expanded Lunchtime Fare Offers a Wider Variety of Fresh Foods

Sandwiches, grill and bakery sales each reached double-digit growth during 2004 and helped 7-Eleven achieve an annual overall fresh food sales increase of 16% – making fresh food one of our fastest growing categories. New product introductions and menu improvements will drive our momentum in 2005, with fresh food remaining a key focus.

Sandwiches Are Our Bread and Butter

Breakfast sandwiches are just the start. We've continued to build our lunch menu with several signature sandwiches, using a variety of specialty deli-style breads, signature bold-flavor spreads, specialty meats and cheeses, and upgraded packaging.

Original recipes are developed by our product development team. Each division's fresh foods team and its local kitchen also work together to offer area favorites like Cuban sandwiches in Florida and hoagies in the Northeast.

7-Eleven's product strategy is to develop sandwiches targeting a broad range of consumer needs, from a basic high-quality sandwich like chicken salad to a specialty one with turkey, pepperoni and a tomato-feta spread on tomato-basil bread.

Fresh Food Requires Around-the-Clock Preparation

Every morning electronic orders for our signature line of fresh food items from an estimated 5,000 7-ELEVEN stores trigger kitchens and bakeries across the country to spend the day preparing customized orders. They, in turn, deliver the product to one of the 24 dedicated combined distribution centers (CDC) for late-night through early-morning delivery to 7-ELEVEN stores. Each receives delivery less than 17 hours after the order is placed, 365 days a year.

In 2004, these CDCs made almost 2 million fresh food deliveries to about 86% of our store base. This included the fourth-quarter opening of the 24th CDC in the Seattle/Portland area serving more than 250 stores.

As a testament to the strength of this unique distribution model, when the hurricanes battered Florida's coastal communities in 2004, the CDC network had 7-ELEVEN stores back in stock quicker than the majority of retailers.

Wraps Offer Sandwich-Style Meals with a Twist

Wraps are one of our newest fresh food items and a great lunch alternative. Even the packaging was specially designed for 7-Eleven – it will stand up in, what else, a car cup holder or on a desk.

Developed in-house by our fresh food team and corporate chefs, we have begun testing and expect to roll out nationally in early 2005. Each wrap features flavored tortillas,

Cooking Up New Products

7-Eleven hired a director of product development last year who quickly established an in-house fresh foods development team. The newly formed group determines product viability, placement, merchandising and pricing, and they study a new product's potential in 7-Eleven's fresh food test market in Austin, Texas prior to any national rollouts to ensure maximum success.

While it typically takes fast-food restaurants 18 months to create new products and casual dining about nine months, 7-Eleven's pace is much faster – as quickly as three months.

fresh vegetables and specialty meat, giving 7-Eleven the opportunity to attract a wider range of customers and further diversify its lunch offering.

16%

Growth of fresh food sales in 2004

Our sandwiches and wraps are decidedly flavorful and unique. Their quality and value helps drive repeat business and will ultimately make 7-Eleven the ideal destination for fast – and portable – fresh foods.

Our Stores Provide an Afternoon Energy Boost

7-Eleven is continuously adding to its snack lines to appeal to varied customer tastes, from freshly baked desserts to energy foods and drinks to the ubiquitous SLURPEE® beverage.

Afternoon Bakery Caters to Locals

An indulgent gourmet line of dessert bars and assorted brownies complements 7-Eleven's fresh food selections, giving us the ability to leverage afternoon traffic and satisfy later-in-the-day snack cravings. We work to create regional favorites, a practice that can increase sales company-wide. The Florida division's chocolate brownie was so well-liked, we exported it nationwide, and it became a top-ranked new bakery item.

Health-Conscious Buyers Find 7-Eleven a Reliable Resource

Consumers are becoming more health conscious and, as a result, they want a greater variety of better-for-you products. 7-Eleven began 2004 leading the low-carbohydrate trend, demonstrating our ability to quickly respond to emerging trends.

As consumers shifted to more balanced diets, we rounded out our assortment with energy, nutrition and performance-oriented items. We also expanded the selection of fresh salads and cold snack trays with carrots, celery, cheese and fruit.

Energy Drinks Add Gusto to Sales

Our non-carbonated beverage line is showing robust growth and 7-Eleven is becoming a foremost destination for these products.

Nutritional drinks are behind this surge. The 16- and 24-ounce sizes provide a vehicle for getting consumers to trade up to a larger size and bring new users to the category. 7-Eleven had continuous launches of first, best or only energy drinks that kept our assortment fresh throughout 2004, and we added a sugar-free version of the already popular Mad-Croc® Energy Drink.

Isotonics, cold coffees, teas, juices and water were also strong sellers, as were our QUALITY Classic Selection® sparkling waters in new white grape, black cherry and kiwi strawberry sweetened with Splenda® No Calorie Sweetener.

After school…

Premium cookies

Flavored waters

Sierra Mist Shrek™-A-Licious SLURPEE® beverage

In the evening...

Energy bars

Energy drinks

iTunes® gift card

7-Eleven SLURPEE Remains Customers' All-Time Favorite

Nothing says fun like 7-Eleven SLURPEE® frozen carbonated beverage, and in 2004, marketing this product became just as dynamic.

Customers Applaud SLURPEE Summer Music

June 1, 2004, kicked off 7-Eleven's SLURPEE® promotion, SLURPEE® Summer Music. During this three-month-long event, customers were directed to the newly launched www.slurpee.com Web site to redeem downloadable songs and other items from codes hidden under the rim of specially marked 44-ounce SLURPEE® cups. 7-Eleven created more buzz with localized radio spots and contests throughout the country.

Zany SLURPEE® names like Sierra Mist® Shrek™-A-Licious, Grape Purple Craze and Bammin' Jammin' Cherry added to the excitement, as did new SLURPEE® candy straws.

7-Eleven Melds Convenience and Innovation in its Products and Services

We're differentiating ourselves with an expansive line of services, making 7-ELEVEN® stores essential not only for traditional and fresh food items, but much-needed services too.

Services Expand to Make 7-Eleven Indispensable

We are enhancing convenience with services such as our VCOM® financial service kiosk, available in about 1,000 stores. It allows customers to cash checks, pay bills, purchase money orders, transfer funds, access Verizon® residential telephone services, purchase and reload 7-ELEVEN E-CASH™ prepaid MasterCard® cards as well as conduct traditional ATM services. In early 2005, we created a co-marketing relationship with H&R Block for the 2005 tax season to drive check-cashing traffic to our VCOM® kiosks and attract new customers to our stores.

VCOM financial services kiosk

During 2004, 7-Eleven made a strategic acquisition of the ATM portfolio deployed in approximately 5,500 7-Eleven stores from the American Express Company. This accretive acquisition better positions us to integrate ATM services into our store-promotion programs. With the ability to set transaction fee levels, we can consider both the potential ATM transaction revenue and our goal of increasing customer traffic into our overall merchandising objectives.

Saving Customers Money and Increasing Cross Profit

7-Eleven private-label products are a great value for customers and add higher gross profit margins to the company. In 2004, we added to our lineup of private-label and proprietary merchandise, from everyday needs like bread to unconventional items like music CDs. For example, we had exclusive rights to sell Jessica Simpson's first-ever custom holiday CD. We plan to add additional items in 2005.

Jessica Simpson holiday CD

First Retailer to Launch Proprietary Wireless Program

7-Eleven became the first retailer to launch its own prepaid wireless product called 7-ELEVEN SPEAK OUT WIRELESS® service in 2004 using major cell phone providers. Sales were strong and customer feedback was positive. "Simplicity" was cited as the service's biggest feature. Key attributes include a ready-to-use phone, precharged battery, preassigned phone number and 50 minutes of preloaded airtime. Prices vary, from a basic handset to a phone featuring the first prepaid wireless high-resolution color screen with built-in camera and a variety of popular features.

With prepaid rates among the lowest in North America at 20 cents per minute, days, nights and weekends, and expiration dates the longest at 365 days, customers are returning more frequently to buy airtime available only at 7-ELEVEN® stores.

RIS is Pivotal To 7-Eleven's Success as a Convenience Retailer

Our success wouldn't be possible without effective tools and good people to use them. At the core of our ability to meet the changing needs of the convenience customer is our retail information system (RIS). RIS is a technologically advanced

Retail Information System (RIS)

system that provides store operators historical sales data and key indicators of sales for any item, such as product flavor, package size or time of day. Store operators can modify their product assortment according to emerging trends, season, demographics and even specific product requests. They are also able to customize the merchandise they carry to meet local or regional needs and can quickly adjust to a change in volume due to an unexpected turn in the weather or a special event near the store.

7-Eleven continued to improve its technology capabilities during 2004. We completed a number of enhancements to RIS, including the upgrade of back-office hardware for all U.S. stores. We increased store system functionality with improved item-level sales analysis and forecasting and acceptance of alternative payments like prepaid cards. In addition, we provided networked training systems to all U.S. stores and upgraded training on ordering and store operations.

During the year, we improved efficiency, usability and reliability within our systems. We streamlined a vendor application process on our corporate Web site, www.7-Eleven.com. We launched 7-Insight, an enterprise data warehouse, which provides online management reporting and analysis for our field organization. We increased system security through the improved design of our network by providing redundancy and business continuity for our stores and field offices.

Bottom line, technology gives 7-Eleven the flexibility to innovate and introduce new products, regionally or nationally, while capitalizing on potential upside and limiting downside.

Increasing Merchandise Inventory Turns

While technology enables our Retailer Initiative strategy and other critical operations at the company, people are the key ingredient to our success. Our individual retailers' eagerness to apply this technology makes their job of giving customers what they want easier and more effective.

This winning combination made possible 7-Eleven's sixth consecutive year of improved merchandise inventory turnover at a rate of 19 times at the end of 2004. That's where Retailer Initiative made the difference. By managing every item, in every store, every day, stocking those that sell and eliminating those that don't, our merchandise same-store sales have improved for 33 consecutive quarters.

Continuing to Achieve These Trends is Our Mission

To enhance our store operators' ability to practice Retailer Initiative or track and improve their product mix, we established a model market program. The program consists of extensive training on store operations, ordering, forecasting, logistics and merchandising techniques.

Building a Better Model

By December 2004, we had established 58 model markets out of 78 markets, representing 1,400 stores that are practicing Retailer Initiative more effectively. The model market rollout will continue across 7-ELEVEN® stores nationwide and we expect ongoing implementation through 2007.

1,400 Model market stores underway at year-end

To further support the field organization in improving store-level results, we launched an intense 12-week store certification program and had over 89% of our market managers and 69% of our field consultants certified at year-end.

A vital factor contributing to a store's success is the ability to effectively forecast orders. We created a two-day classroom-training module for advanced order writing. These training tools support our merchandise sales growth and enable better inventory management.

The model market program was designed to practice Retailer Initiative at a higher level, improving the profitability of our company.

33 Consecutive quarters of increased same-store merchandise sales

It's working. The results of this initiative have been very positive with model stores outpacing non-model stores in merchandise sales, gross profit, inventory turnover and improved store results. The model market program remains a top priority for 2005.

New Agreement with Franchisees Provides Purchasing Power

A significant accomplishment in 2004 was a new agreement with franchisees, making it possible for us to further leverage their purchasing power. About 95% of all franchise stores signed on, the most ever on a single agreement. With franchisees operating around 3,400 7-Eleven stores, this will allow 7-Eleven and its franchisees to further improve profitability.

Employees, Franchisees and Licensees Are Crucial to 7-Eleven's Success

7-Eleven's success, measured in sales figures and stock price, is due to the hard work of its employees, franchisees and licensees. We added more depth to our management team in 2004. For the third straight year, we experienced a decrease in store-level turnover, while our model market program is promoting success and enhancing careers.

7-Eleven's International Presence Continues Growing

Strong global growth continued with licensees opening over 1,700 stores during 2004. Growth in Asia dominated with Seven-Eleven Japan growing by 535 stores, Thailand increasing by 464 stores and Taiwan by 210 stores. Other significant store growth occurred in Malaysia, Philippines, Singapore, Turkey and Hong Kong.

In early 2004, we announced that the Ministry of Commerce in the People's Republic of China had approved the formation of a joint venture to open 7-Eleven stores in Beijing. At year-end, 10 were in Beijing and surrounding provinces.

7-Eleven Moves into Urban Markets

Our concept of convenient fresh foods and essential services is one that can be employed in many areas. We're widening our vision and applying this model to store locations.

Upon successfully opening downtown stores in Boston, Chicago and San Francisco in 2004, we are looking to continue urban store growth in 2005 and beyond. These sites allow 7-Eleven to reach new customers and contribute to our growing presence in the fresh food industry.

Urban stores typically have smaller footprints compared to a standard store and are configured in a wider variety of layouts. With their city-center locations, these stores are uniquely positioned to serve a diverse customer base – professional, student, traveler and everyday patron – relying on heavy pedestrian traffic and our well-known convenience brand. With a planned unit increase of 100 to 150 new stores, we'll open more of these urban sites in 2005.

7-Eleven Pursues its Commitment to Being a Good Neighbor

Our employees, franchisees and customers demonstrated their generous spirit again this year by participating in charitable donations and fund-raising efforts that our company values.

Charitable Contributions

7-Eleven supports worthy charities through direct donations, in-kind contributions and its signature canister program. In 2004, 7-Eleven again showed its support in communities across the country by providing more than $4 million to numerous nonprofit organizations, including the American Red Cross, Muscular Dystrophy Association and Education is Freedom.

Education is Freedom Helps Students Realize a Dream

Education is Freedom (EIF) made the dream of attending college in 2004/2005 a reality for more than 200 students in the U.S. EIF awarded nearly $500,000 in scholarships to 212 students in 44 states, paying for tuition and fees at accredited colleges or universities. EIF also renewed 200 of the scholarships awarded the previous year. Total scholarship dollars awarded last year was $1 million.

Support Our Troops wristbands

Raising Money for St. Jude's, U.S. Armed Forces and Tsunami Disaster Relief

7-Eleven expanded its community relations efforts in 2004 with innovative cause-related marketing, supporting St. Jude's Children's Research Hospital through the sale of teddy bears and partnering with the United Service Organizations (USO) to offer military green "Support Our Troops" wristbands with $1 of the purchase price

St. Jude's Children's Research Hospital bear

donated to the organization. In early 2005, we began offering a blue Tsunami Disaster Relief wristband with $2 of that purchase going to Save the Children® foundation.

Our Commitment to Excellence

Retailer Initiative and Team Merchandising created many successful new items in 2004, embodying 7-Eleven's merchandising strategy, marketing and creative spirit – proving that our employees, franchisees and vendors are some of the most clever in the industry.

Hershey Foods Wins the 2004 Retailer Initiative Award

Hershey Foods Corporation was recognized for its team merchandising with 7-Eleven. Their creative approach to product development, marketing and day-by-day product management contributed to better optimization of the confectionary shelf space.

Honored with Industry Awards and Accolades in 2004

7-Eleven was again ranked #4 by *Entrepreneur* magazine in its 25th Annual Top 500 Franchises. Information Resources, Inc. and Racher Press, Inc. named 7-Eleven the winner of the Supply Chain Reinvention of the Year award. The award recognizes companies that are successfully transforming their organizations or products through innovative, leading-edge applications of business process management, market research, supply chain enhancements and technology. 7-Eleven's CIO Keith Morrow was named among *CIO* magazine's Top 100. *Convenience Industry News* selected 7-Eleven, Inc. as its 2004 Exceptional Chain of the Year Award winner.

By staying true to the corporate values that these awards represent, 7-Eleven can continue to grow. Executing our strategies allows us to be a consistent, dependable resource to customers, providing them the fresh food, quality merchandise, friendly service, easy transactions and quick in-and-out they want and giving our shareholders what they want – improved performance year after year.

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Selected Financial Data

Years Ended December 31	2000	2001	2002	2003	2004
(Dollars in millions, except share data)	*Restated*	*Restated*	*Restated*	*Restated*	
STATEMENT OF EARNINGS DATA: (1)					
Net sales:					
Merchandise	$6,391.8	$6,635.9	$6,983.2	$ 7,375.2	$ 7,893.1
Gasoline	2,563.5	2,620.4	2,744.8	3,355.1	4,227.9
Total net sales	8,955.3	9,256.3	9,728.0	10,730.3	12,121.0
Other income	104.4	111.8	102.8	97.0	125.1
Total revenues	9,059.7	9,368.1	9,830.8	10,827.3	12,246.1
LIFO charge (credit)	4.6	(7.5)	10.3	0.3	10.8
Depreciation and amortization (2)(3)	240.1	268.3	282.1	310.4	333.3
Interest expense, net (4)	86.9	71.0	71.3	76.9	64.9
Earnings from continuing operations before income taxes and cumulative effect of accounting change (3)(5)	154.6	164.9	99.4	137.9	172.5
Income tax expense (3)(6)	(47.5)	(64.3)	(39.8)	(52.4)	(64.0)
Earnings from continuing operations before cumulative effect of accounting change (3)	107.1	100.6	59.6	85.5	108.5
Gain (loss) on discontinued operations	0.7	(7.9)	(19.9)	(13.2)	(6.9)
Cumulative effect of accounting change (7)	—	(9.8)	(28.1)	(10.2)	(5.1)
Net earnings (3)	107.8	82.9	11.6	62.1	96.5
Earnings from continuing operations before cumulative effect per common share: (3)					
Basic	1.07	0.96	0.57	0.80	0.97
Diluted	0.97	0.88	0.55	0.75	0.90
Weighted-average shares outstanding:					
Basic (8)	100.0	104.8	104.8	106.8	112.4
Diluted (8)(9)	121.4	125.9	111.4	127.0	129.4
BALANCE SHEET DATA (end of period):					
Total assets (3)(4)	2,819.3	2,979.9	3,174.7	3,450.6	3,312.1
Total debt (10)	1,337.5	1,434.6	1,415.2	1,475.3	1,026.4
Convertible quarterly income debt securities ("QUIDS") (11)	380.0	380.0	380.0	300.0	300.0
Total shareholders' equity (3)(8)	77.7	147.2	157.1	331.6	464.5

(1) *Prior-year amounts on the Statement of Earnings Data have been reclassified to discontinued operations to conform to the current-year presentation in accordance with Statement of Financial Accounting Standards ("SFAS") No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets."*

(2) *We adopted SFAS No. 142, "Accounting for Goodwill and Other Intangible Assets," effective January 1, 2002. In connection with adopting SFAS No. 142, we no longer amortize goodwill or intangible assets with indefinite lives. Amortization of these assets in 2000 and 2001 was $19.7 million and $19.8 million, respectively.*

(3) *In December 2004, we revised our accounting for depreciation of leasehold improvements and restated prior years to adjust the amortization expense of certain of our leasehold improvements to be the shorter of the economic useful life or the lease term as defined by SFAS No. 13, "Accounting for Leases." As a result, the opening balance of shareholders' equity as of December 31, 1999, was reduced $3.9 million for the cumulative effect of the after-tax increase in prior years' depreciation expense, and years ended December 31, 2000, through 2003, were restated accordingly to be consistent with our revised accounting for depreciation of leasehold improvements (see Note 1).*

(4) *Prior-year amounts have been reclassified to conform to current-year presentation in accordance with our adoption of FASB Interpretation No. 46, "Consolidation of Variable Interest Entities-an Interpretation of ARB No. 51 (revised December 2003)," ("FIN 46R") in 2004.*

(5) *Earnings from continuing operations before income taxes and cumulative effect of accounting change in 2000 and 2003 include gains of $2.9 million and $10.5 million, respectively, in connection with debt redemption, and 2004 includes an expense of $7.5 million related to the early retirement of the Cityplace Term Loan.*

(6) *Income tax expense in 2000 includes a $12.5 million benefit in connection with our settlement of certain outstanding issues with the IRS, and 2004 includes a $2.4 million benefit resulting from the expiration of a prior-year's tax statute.*

(7) *In 2001, we adopted SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities;" in 2002 we adopted SFAS No. 143, "Accounting for Asset Retirement Obligations;" in 2003 we adopted FASB Interpretation No. 46, "Consolidation of Variable Interest Entities-an Interpretation of ARB No. 51" ("FIN 46"); in 2004 we adopted the subsequent revision, FIN 46R.*

(8) *In the first quarter of 2000, we issued 22,736,842 shares of common stock at $23.75 per share to IYG Holding Company in a private placement transaction. In the third quarter of 2003, we issued 6,501,685 shares of common stock to IY and SEJ from the conversion of the 1998 QUIDS (see Note 11).*

(9) *In 2002, the shares in connection with the 1995 QUIDS were antidilutive on earnings per common share and were not assumed converted for weighted-average shares outstanding.*

(10) *In 2004, total debt reductions included the retirement of the Cityplace Term Loan due to the sale of our Cityplace headquarters.*

(11) *In 2003, the 1998 QUIDS were converted into 6,501,685 shares of common stock. The 1995 QUIDS have an interest rate of 4.5% and are potentially convertible into a maximum of 14,422,383 shares of common stock.*

Management's Discussion and Analysis of Financial Condition and Results of Operations

This report includes certain statements that are "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Any statement in this report that is not a statement of historical fact may be deemed to be a forward-looking statement. We often use these types of statements when discussing our plans and strategies, our anticipation of revenues from designated markets and statements regarding the development of our businesses, the markets for our services and products, our anticipated capital expenditures, operations, support systems, changes in regulatory requirements and other statements contained in this report regarding matters that are not historical facts. When used in this report, the words "expect," "anticipate," "intend," "plan," "believe," "seek," "estimate" and other similar expressions are generally intended to identify forward-looking statements. Because these forward-looking statements involve risks and uncertainties, actual results may differ materially from those expressed or implied by these forward-looking statements. There can be no assurance that: (i) we have correctly measured or identified all of the factors affecting us or the extent of their likely impact; (ii) the publicly available information with respect to these factors on which our analysis is based is complete or accurate; (iii) our analysis is correct; or (iv) our strategy, which is based in part on this analysis, will be successful. We do not assume any obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

OVERVIEW

7-Eleven, Inc. is the world's largest operator, franchisor and licensor of convenience stores with over 27,500 stores worldwide, primarily under the name 7-ELEVEN®. 7-Eleven derives its revenues principally from retail sales of merchandise and gasoline from Company- and franchisee-operated stores. We also receive monthly royalty income based on sales of licensed stores, which are predominantly international. Our primary expenses consist of cost of goods; operating, selling, general and administrative expenses; interest expense and income taxes.

7-Eleven sells a broad selection of merchandise items. In addition, we sell gasoline at approximately 40% of our stores. Sales of merchandise during the last three years have generated around 68% of 7-Eleven's revenue, and approximately 90% of our gross profits. Gross profit margins for merchandise have averaged just over 35% during the last three years, while gasoline gross profit margins have averaged approximately 9% during the same period.

We seek to meet the needs of convenience customers and maintain a leadership position in the convenience store industry through leveraging our scale, technology, people and widely recognized brand. In 2005, we will continue to focus on the implementation of our key growth initiatives to improve the operating performance of our Company.

Merchandise Retailing

In an effort to meet the changing needs of our customer base, we offer a wide array of products, including many not traditionally available in convenience stores. These products range from high-quality fresh foods delivered daily to unique items that are developed specifically for 7-Eleven.

Working with outside vendors, 7-Eleven's merchandising team continuously focuses on developing and introducing new products in order to increase overall merchandise sales. We strive for exclusivity from suppliers on these items either for a limited or an extended period to gain a competitive advantage in the convenience channel.

Our decision to add a higher-quality, freshly prepared sandwich and bakery line, additional roller grill products and new salads reflects our strategy to promote proprietary fresh food products to increase sales. During 2004, we further established our Austin, Texas, market as a test-market to determine consumer preferences regarding fresh food products prior to a national rollout. In 2005, the Company's radio and television advertising and point-of-purchase displays will focus primarily on fresh food products. We believe that the Company is well-positioned to take advantage of growth in portable fresh foods and that this category will be a key contributor to our long-term growth.

We have developed a proprietary retail information system that enables our merchandising team, franchisees and store managers to increase sales by enhancing the product mix in each store. By employing item-by-item inventory management, stores are more likely to remain in-stock on certain basic items as well as promote new high-potential items. Franchisees and store managers are expected to monitor customer buying patterns in their stores to try to maximize their sales by managing their product assortment. This strategy, which we call "Retailer Initiative," has contributed to our sustained ability to grow merchandise sales.

To enhance our store operators' ability to monitor and improve their product mix, we established a model market program. The program consists of extensive training on store operations, ordering, forecasting, and merchandising techniques. The results of this initiative have been positive, with our stores who have implemented the model market program outpacing our other stores in merchandise sales, gross profit, inventory management and store results. We will continue to roll out this program to additional markets and stores in 2005.

Management's Discussion and Analysis of Financial Condition and Results of Operations

Growing the services category continues to be one of our priorities. Among the products in the services category are prepaid cards, lottery sales, ATM services, and money orders. In addition, 7-Eleven has its VCOM® self-service financial kiosk in more than 1,000 stores. Available 24-hours a day, VCOM® kiosks offer check-cashing, money orders, funds transfer, bill payment, purchase and reloading of our 7-ELEVEN E-CASH℠ prepaid MasterCard®, traditional ATM services and access to Verizon residential telephone services. In early 2005, we developed a co-marketing relationship with H&R Block and began cashing their customers' checks at our VCOM® kiosks and promoting H&R Block at our VCOM® kiosks. We have seen continued steady transaction growth in the core financial services products in 2004 and expect the recent positive trends in the number of transactions to continue in 2005 as we further refine our Vcom strategy.

Gasoline

We believe that gasoline sales contribute to increased store traffic and, as a result, we offer gasoline as a convenient product for customers wherever practical. Our gasoline strategy is to be competitively priced to maximize gross profit. Over the last twelve years, we have consistently achieved around a 13 cent-per-gallon level of gasoline gross profit margin. Day-to-day management of our gasoline business on a store-by-store basis is driving this steady performance, even in a year like 2004 that experienced rapid fluctuations in the price of gasoline.

Store Base

7-Eleven is working to optimize the earnings of its store base by opening new stores in strategic locations and closing underperforming stores. We plan to open approximately 100 to 150 stores in 2005. Our new store development efforts are focused on our existing markets to take advantage of population density and leverage our current distribution capabilities. We assess new store locations by evaluating demographics, traffic volume, visibility, population density, ease of access and economic activity in the area.

We continue to focus on either improving or closing underperforming stores and have developed a database to track and analyze performance. In addition, we have created a more structured new site approval process and added a site development management system. These enhancements are designed to identify the cause of underperformance and to maximize future performance.

During 2005, we intend to continue to upgrade our more mature stores with around $115 million of capital spending related to remodeling, maintenance and replacement of store equipment.

Technology

Our retail information system provides franchisees, store managers and our management team with timely access to sales information on an item-by-item basis. Details are captured by a point-of-sale scanning system at the check-out register. Stores are linked to vendors, our primary third-party distributor and our combined distribution centers for ordering and item-level information sharing. Effective use of the system is one of the foundations of our business model, allowing franchisees and store managers the ability to manage both their products and time more effectively.

We spent $93 million on technology in 2004. The majority of the spending was for enhancements to our retail information system, which included an upgrade of the back office hardware for all U.S. stores. Other improvements included simplified store processes, upgraded training tools, better analysis and forecasting capability, and increased management reporting. We introduced improved functionality such as support for additional alternative payment methodologies, enhancements for ordering, and additional support for managing product assortment. These actions were designed to give store managers more time to operate their stores. During 2005, we will continue to work on an initiative to upgrade our store systems hardware and the software architecture to a more flexible platform. We also plan to implement a new mobile operations terminal and a new scanner to support ordering, training and other in-store functions.

Employees and Franchisees

Employees and franchisees are critical to implementing 7-Eleven's strategies. We continue to invest in finding and retaining qualified people through focused recruitment efforts, establishment of formal career paths and leadership development programs. Additionally, we are trying to raise the level of performance of our people with advanced training and incentive programs. We recently implemented new training certification curricula for our field organization and store level employees. During 2004, we accelerated the pace of training with over two-thirds of the field support organization completing our "certification" process. Overall, our effort to upgrade the effectiveness of our store associates has resulted in the third year of reduced store-level employee turnover.

We introduced an incentive program that links performance measurements with 7-Eleven's fundamental business concepts. Our practice of grading and rewarding our stores' successful execution of what we refer to as the Five Fundamentals—Assortment, Quality, Value, Cleanliness and Service—has gradually improved their ratings level over the past three years. We expect continued improvement in 2005 and beyond.

Management's Discussion and Analysis of Financial Condition and Results of Operations

The primary method of implementing our Retailer Initiative strategy across our store network is through the establishment of "model markets." In its most basic form, a model market is comprised of a group of stores where we are employing advanced training, labor-saving equipment, and a concentrated focus on merchandising to enable store operators to improve their product assortment. The model market rollout will accelerate throughout 2005, and we expect to have the program rolled out in all of our markets by the end of the year. Typically, the time from rollout of the process to full implementation of the strategy takes from 12 to 18 months. The results of the program have been positive, with model stores outpacing non-model stores by 2% in average per-store-day merchandise sales and achieving higher gross profit, better inventory turnover and improved operating results. During 2005, the model market program will remain a top priority, better positioning the Company for long-term growth.

To better align our franchisees with our business strategies, we developed a new franchise agreement. The agreement is designed to combine 7-Eleven's strategies regarding fresh foods, combined distribution, and differentiation with franchisees' entrepreneurial business approach. In addition, the new agreement is expected to enhance our ability to leverage our scale with additional purchasing power and reduce costs to our stores. By strengthening the relationship with our franchisees, we strive to improve profitability for both franchisees and 7-Eleven. In addition, to find the best candidates to implement our business model, we have developed, and are in the process of implementing, a new selection process for franchise candidates. We believe this will better ensure successful execution of the Company's strategy to increase profitability.

Trademark

We look to increase the value of our licenses by continuing to develop our infrastructure and offering a more compelling financial opportunity to prospective licensees. The majority of our licensees are international, and our long-range plans are to expand the 7-ELEVEN® brand into a number of countries where we currently do not have a presence. In early 2004, we announced the approval of a joint venture by the Ministry of Commerce in the People's Republic of China to develop 7-ELEVEN® stores in Beijing and the surrounding area and had 10 7-ELEVEN® stores in operation at the end of the year.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Restatement of Previously Issued Financial Statements

In connection with the December 31, 2004, year-end reporting, we reviewed our lease accounting and leasehold depreciation policies and determined it was appropriate to restate our previously issued financial statements. Historically, we had been amortizing certain leasehold improvements on operating leases over periods that extended beyond the term of the lease. We have revised our accounting and restated our previously issued financial statements to adjust the amortization expense of certain of our leasehold improvements to be the shorter of the economic useful life or the lease term as defined by Statement of Financial Accounting Standard ("SFAS") No. 13, "Accounting for Leases."

As a result of these restatements, we have recorded increases of $1.9 million and $3.3 million to operating, selling, general and administrative ("OSG&A") expense for the years ended December 31, 2002 and 2003, respectively. Total costs and expenses, earnings from continuing operations before income tax expense and cumulative effect of accounting change, earnings from continuing operations before cumulative effect of accounting change and net earnings have also been adjusted. These restatements had no impact on our cash flows from operating, investing and financing activities. In addition, we have reduced our opening shareholders' equity balance by $5.3 million as of December 31, 2001.

Estimates

Our discussion and analysis of our financial condition and results of operations are based on our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of our consolidated financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances. The results of these estimates form the basis for our judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ materially from these estimates under different assumptions or conditions. See Note 1 to the accompanying consolidated financial statements.

Franchisees

We adopted Financial Accounting Standards Board ("FASB") Interpretation No. 46, "Consolidation of Variable Interest Entities – an Interpretation of ARB No. 51," ("FIN 46") as of July 1, 2003, and the subsequent revision to FIN 46 ("FIN 46R") as of January 1, 2004. Prior to the adoption of FIN 46R, we included merchandise sales and cost of goods sold from stores operated by franchisees with the results of stores we operate in the consolidated statements of earnings. As a result of adopting the provisions of FIN 46R, we have consolidated the assets, liabilities, equity and results of operations of

Management's Discussion and Analysis of Financial Condition and Results of Operations

stores operated by franchisees in our accompanying consolidated financial statements. The franchisees are independent contractors in whom we are deemed to have a controlling financial interest, as defined by FIN 46R. Adoption of FIN 46R resulted in an after-tax, one-time cumulative effect charge of \$5.1 million (net of deferred tax benefit of \$3.3 million) in 2004. This resulted from a change in how we are required to recognize franchise fee income when we finance the initial franchise fee. Instead of recognizing these fees in income when the franchisee's 90-day termination and refund period has passed, we recognize the fees as payments are received from the franchisee (after the 90-day period). Franchise fees that we do not finance will continue to be fully recognized in income after the 90-day termination and refund period has expired.

As a result of adopting the provisions of FIN 46R, the presentation of the consolidated statements of earnings has changed. The historically reported franchisee gross profit expense has been eliminated and is now included in OSG&A expense. The primary components of OSG&A expense for franchised stores are payroll-related items, insurance and business taxes. The net earnings or loss of franchised stores is included in OSG&A because it represents owner compensation.

As a result of consolidating stores operated by our franchisees, our consolidated balance sheets as of December 31, 2003 and 2004 include, among other things, franchisees' merchandise inventory and minority interest, which represents the franchisees' equity in the franchise stores. Merchandise inventory costs are determined by the FIFO method for franchisee-operated stores and for company-operated stores in Canada and by the LIFO method for company-operated stores in the United States. The prior-year presentation of franchisees' assets and liabilities has been reclassified to conform to the current-year presentation. See Notes 1, 2 and 4 to the accompanying consolidated financial statements.

Environmental

We accrue for the estimated future costs related to remediation activities at existing and previously operated gasoline storage sites and other operating and nonoperating properties where releases of regulated substances have been detected. Our estimates of the anticipated future costs for remediation activities at such sites are based on our prior experience with remediation sites. In addition, we consider factors such as the condition of the site contamination, location of tank sites and our experience with contractors who perform environmental assessment and remediation work. We determine the reserve on a site-by-site basis and record a liability for remediation activities when it is probable that corrective action will be taken and the cost of the remediation activities can be reasonably estimated.

A portion of the environmental expenditures we incur for remediation activities is eligible for reimbursement under state trust funds and reimbursement programs. These reimbursement claims represent a firm and legally enforceable basis to recover remediation costs from the various state programs. We record a receivable for estimated probable refunds at the same time that we record the liability. The amount of the receivable is based on our historical collection experience with the specific state fund (or other state funds), the financial status of the state fund and our priority ranking for reimbursement from the state fund. We discount the receivable for amounts relating to remediation activities already completed.

The estimated future remediation expenditures and related state reimbursement amounts could change within the near future as governmental requirements and state reimbursement programs continue to be implemented or revised. Such revisions could have a material impact on our operations and financial position. See "—Other Issues—Environmental" and Notes 1 and 15 to the accompanying consolidated financial statements.

Store Closings and Asset Impairment

The results of operations of certain owned and leased stores are presented as discontinued operations in accordance with the provisions of SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." Since 2002, the results of operations of owned stores have been presented as discontinued operations beginning in the quarter in which management commits to a plan to close the related store and actively markets the store. The results of operations of a leased store are presented as discontinued operations beginning in the quarter in which the related store ceases operations. The results of operations of these owned and leased stores include related write-downs of stores to estimated net realizable value and accruals for future estimated rent and other expenses in excess of estimated sublease rental income.

We write down property and equipment of stores we are closing to estimated net realizable value at the time we commit to a plan to close such stores and begin to actively market the store. If we lease the store, we accrue for related future estimated rent and other expenses if we believe the expenses will exceed estimated sublease rental income. We adopted the provisions of SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities," and as a result, effective January 1, 2003, if we lease the store, we accrue for related future estimated rent and other expenses at the time the store ceases operation if we believe the expenses will exceed estimated sublease rental income. Prior to 2003, we accrued for related future estimated rent and other expenses when we committed to a plan to close the stores. We

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base the estimated net realizable value of property and equipment on our experience in utilizing and/or disposing of similar assets and on estimates provided by our own and/or third-party real estate experts. We also use our experience in subleasing similar property to estimate future sublease income. If there is a significant change in the real estate market, our net realizable value estimates and/or our estimated future sublease income could change materially. See Notes 1 and 6 to the accompanying consolidated financial statements.

We review our long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying value may not be recoverable. In accordance with the provisions of SFAS No. 142, "Goodwill and Other Intangible Assets," we also conduct an impairment test of our goodwill and intangible assets with indefinite lives as of the end of the third quarter each year. The impairment test for goodwill includes two steps. Step one compares the fair value of the reporting unit with its carrying amount, including goodwill. If the carrying amount exceeds the fair value, then goodwill is impaired and step two is required to measure the amount of impairment loss. Step two compares the implied fair value of the reporting unit's goodwill with the carrying amount of that goodwill. If the carrying amount is greater than the implied fair value of the goodwill, an impairment loss is recognized for the excess. See Notes 1 and 7 to the accompanying consolidated financial statements.

The impairment test for intangible assets with indefinite lives consists of a comparison of the fair value of the intangible asset with its carrying amount. Fair value is determined by calculating the present value of future estimated revenues. If the carrying amount of the intangible asset is greater than fair value, an impairment loss is recognized for the excess. See Notes 1 and 7 to the accompanying consolidated financial statements.

Underground Gasoline Storage Tanks

We recognize the estimated future cost to remove an underground storage tank over the estimated useful life of the storage tank in accordance with the provisions of SFAS No. 143, "Accounting for Asset Retirement Obligations." We record a discounted liability for the fair value of an asset retirement obligation with a corresponding increase to the carrying value of the related long-lived asset at the time an underground storage tank is installed. We amortize the amount added to property and equipment and recognize accretion expense in connection with the discounted liability over the remaining life of the tank. We base our estimates of the anticipated future costs for removal of an underground storage tank on our prior experience with removal. We also consider factors such as the type of tank, location of tank sites and our experience with contractors who perform removal work. See Notes 1 and 9 to the accompanying consolidated financial statements.

Yen Loans

We use our license royalty receipts from Seven-Eleven Japan Co., Ltd. ("SEJ") to service the monthly principal and interest payments on our outstanding yen loans. This provides us with an economic hedge against fluctuations in the Japanese yen to U.S. dollar exchange rate. We adjust the balance of the yen loans at each reporting date to reflect the then-current Japanese yen to U.S. dollar exchange rate, and we recognize the resulting noncash foreign currency exchange gain or loss in earnings. In addition, we record the SEJ royalty and interest expense on the yen loans at the average Japanese yen to U.S. dollar exchange rate for the respective periods. See "—Quantitative and Qualitative Disclosures About Market Risks—Foreign-Exchange Risk Management" and Notes 10 and 12 to the accompanying consolidated financial statements.

Litigation and Tax Assessments

From time to time, we are subject to lawsuits and other claims. We assess the likelihood of any adverse judgments or outcomes to these matters as well as the potential range of probable losses. A determination of the amount of accrual required, if any, for these contingencies is made after careful analysis of each matter. The required accrual may change in the future due to new developments in any matter or changes in approach (such as a change in settlement strategy) in dealing with these issues. We believe that the final resolution of these matters will not have a material adverse effect on our financial position, results of operations or cash flows.

Additionally, we are periodically engaged in various tax audits by federal and state governmental authorities incidental to our business activities. We record reserves for the estimated probable losses for certain of these proceedings. It is possible that additional losses associated with these audits may be incurred; however, we believe that the final resolution of these issues will not have a material adverse effect on our financial position, results of operations or cash flows.

Inventories

Inventories are stated at the lower of cost or market. Cost is generally determined by the last-in, first-out ("LIFO") method for company-operated stores in the United States and by the first-in, first-out ("FIFO") method for stores in Canada and for stores operated by franchisees. Although the LIFO method generally matches the most recent product cost with related revenues, decreases in inventory quantities can result in a liquidation of LIFO inventory layers recorded at costs that are lower than the current costs, which would

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lower cost of goods sold and increase our margin. See Notes 1 and 4 to the accompanying consolidated financial statements.

Workers' Compensation, General Liability and Medical Reserves

We have established self-insurance and predetermined deductible/retention programs to cover certain insurable risks consisting primarily of physical loss to property, business interruption, workers' compensation and comprehensive general and automobile liability. We obtain third-party insurance coverage above predetermined deductibles/retentions for property and liability exposures as well as those risks required to be insured by law or contract. Our predetermined deductibles/retentions are generally $500,000 per occurrence for each type of coverage with the exception of property damage, which is $250,000 to $1 million per occurrence based on the type of loss. We record the provisions for expected losses under our insurance programs based on independent actuarial estimates of the aggregate liabilities for claims incurred. A significant change in claims experience or in the criteria which the actuary utilizes could result in a material revision to our liability.

Effective January 1, 2003, we changed our medical coverage from a fully insured plan to a self-insured plan. In lieu of paying fully insured premiums, which cover incurred claims plus administrative expenses, we pay claims and administrative expenses as they become due and establish reserves for incurred but unpaid claims as determined by an independent actuary. We do not maintain stop-loss coverage, but we monitor total claims, including large claims, on an annual basis to determine the appropriateness of future stop-loss coverage. See Note 1 to the accompanying consolidated financial statements.

COMPARISON OF 2004 TO 2003 RESULTS

We have restated our previously issued consolidated financial statements to adjust the amortization expense of certain of our leasehold improvements to be the shorter of the economic useful life or the lease term as defined by SFAS No. 13. See "—Critical Accounting Policies and Estimates—Restatement of Previously Issued Financial Statements" and Note 1 to the accompanying consolidated financial statements.

We have reclassified certain prior-year amounts to conform to the current-year presentation, such as the results of operations of our franchisee-operated stores in accordance with FIN 46R and of certain owned and leased stores that are presented as discontinued operations in accordance with the provisions of SFAS No. 144 for all years discussed.

Merchandise Sales

Years Ended December 31

(Dollars in millions)	Number of Stores 12/31/04	2003	**2004**	Increase/ (Decrease)	Percentage Change
Merchandise Sales:					
U.S. same-store	5,172	$6,783.5	**$7,160.6**	$377.1	5.6%(1)
U.S. stores opened in 2004	52	—	**16.7**	16.7	n/a
U.S. stores opened in 2003	74	31.7	**90.1**	58.4	n/a
Canada stores	488	546.3	**606.2**	59.9	11.0%
Rebuilt/relocated stores	13	12.7	**13.4**	0.7	n/a
Vcom commissions	—	1.0	**6.1**	5.1	n/a
	5,799	$7,375.2	**$7,893.1**	$517.9	7.0%

(1) *U.S. same-store merchandise sales growth is 5.3% after eliminating the effects of the extra leap-year day in 2004.*

The U.S. same-store merchandise sales increase of 5.6% for 2004 is on top of a 3.3% increase for 2003. Both company-owned and franchise-operated stores in the United States with merchandise sales during all days of both periods being compared are included in determining same-store sales growth rates. A new store, relocated store or rebuilt store is not included in our same-store sales calculations until it has operated long enough to have merchandise sales during all of the days in both periods being compared. Continued improvement in U.S. same-store merchandise sales reflects the ongoing implementation of our strategic initiatives and consistent introduction of new products. The key contributors to the merchandise sales growth in 2004 were increases in fresh foods, hot and cold beverages, beer and cigarettes. Vcom commissions increased primarily as a result of the new check-cashing arrangement entered into during 2004. See "—Liquidity and Capital Resources—VCOM™" and Note 1 to the accompanying consolidated financial statements.

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Gasoline Sales

Years Ended December 31	2003	2004	Increase/ (Decrease)	Percentage Change
Gasoline sales (in millions)	\$3,355.1	**\$4,227.9**	\$872.8	26.0%
Gallons sold (in millions)	2,106.7	**2,241.3**	134.6	6.4%
Average retail price per gallon	\$ 1.59	**\$ 1.89**	.30	18.9%
Gallons sold per store change	4.2%	**4.9%**		

We attribute the increase in gasoline sales in 2004 to the 30-cent increase in the average retail price of gasoline and to the 4.9% increase in per-store gallons sold in 2004.

Merchandise Gross Profit

Years Ended December 31	2003	2004	Increase/ (Decrease)	Percentage Change
(In millions)				
Merchandise Gross Profit:				
U.S. same-store	\$2,431.1	**\$2,598.7**	\$167.6	6.9%
U.S. stores opened in 2004	—	**6.2**	6.2	n/a
U.S. stores opened in 2003	11.2	**33.2**	22.0	n/a
Canada stores	171.3	**189.2**	17.9	10.4%
Vcom commissions	1.0	**6.1**	5.1	n/a
Other (1)	(15.7)	**(20.0)**	(4.3)	n/a
	\$2,598.9	**\$2,813.4**	\$214.5	8.3%
Gross profit margin	35.24%	**35.64%**		
Gross profit growth per store		**6.6%**		

(1) *Primarily represents costs of third-party combined distribution centers, which are not allocated to stores.*

The 8.3% year-over-year increase in merchandise gross profit primarily resulted from the favorable changes in product mix due to the acquisition of the ATM business, partially offset by higher merchandise write-offs and LIFO expense. See "—Liquidity and Capital Resources—VCOM®" and Note 7 to the accompanying consolidated financial statements.

Gasoline Gross Profit

Years Ended December 31	2003	2004	Increase/ (Decrease)	Percentage Change
Gasoline gross profit (in millions)	\$325.2	**\$342.4**	\$17.2	5.3%
Gross profit margin	9.69%	**8.10%**		
Gross profit margin cents per gallon	15.4	**15.3**	(.1)	(0.6%)

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We manage retail gasoline prices through a centralized monitoring process to minimize the effect of gasoline margin volatility and maximize our gross profit per gallon. Increases or decreases in the wholesale cost of gasoline will generally cause similar increases or decreases in the retail price of gasoline. An increase in the wholesale cost of gasoline generally results in higher retail prices within five to 10 days after the cost increase. Conversely, a decrease in the wholesale cost of gasoline generally results in lower retail prices within 15 to 20 days after the cost decrease. Competitive conditions in the retail marketplace can cause these time periods to vary considerably on a market-by-market basis, which can have a significant impact on gasoline gross profit margin. Over the last 12 years, our annual gasoline gross profit margins on a cent-per-gallon basis have remained comparatively stable at or above the 13-cent-per-gallon level.

Other Income

Other income consists primarily of area license royalties, Vcom fees and initial franchise fees. Other income for 2004 was $125.1 million, an increase of $28.1 million, or 29.0%, from $97.0 million in 2003. Royalty income from our area licensees increased $6.5 million to $58.5 million in 2004. This increase was primarily due to the increase in the number of stores under an area licensing agreement. Franchise fees increased $7.2 million to $25.1 million for 2004 as a result of higher average franchise fees charged during the year. Vcom fee income increased $11.7 million to $32.5 million in 2004. See "—Liquidity and Capital Resources—VCOM®" and Note 1 to the accompanying consolidated financial statements.

OSG&A Expense

The components of OSG&A expense are as follows:

Years Ended December 31	2003	2004	Increase/ (Decrease)	Percentage Change
(In millions)				
Company OSG&A expense	$2,039.1	**$2,198.9**	$159.8	7.8%
Franchisee OSG&A expense	767.2	**844.6**	77.4	10.1%
	$2,806.3	**$3,043.5**	$237.2	8.5%

The ratio of total OSG&A to revenues decreased to 24.8% in 2004 from 25.9% in 2003.

Company OSG&A Expense – The primary contributors to the increase in Company OSG&A expense for 2004 were increases of $81.1 million in occupancy costs, $46.1 million in employee-related costs and $16.5 million in credit card processing fees. The increase in occupancy costs was primarily a result of new stores and their associated costs; the increase in employee-related costs was primarily due to an increase in store labor expenses; and the increase in credit card processing fees was the result of higher dollar volume primarily from the increase in retail gasoline prices. We expect OSG&A to grow at a rate less than the sum of overall gross profit plus increases in other income. We expect store lease costs, which are a component of our occupancy costs, to increase over time as older leases expire and then are typically renewed at higher rental rates.

Included in 2004 Company OSG&A were a $6.3 million currency conversion loss, a $3.9 million gain associated with the sale of Cityplace and a $7.5 million fee associated with the prepayment of the Cityplace Term Loan. See "—Liquidity and Capital Resources" and Notes 6 and 10 to the accompanying consolidated financial statements.

Included in 2003 Company OSG&A were a $10.5 million gain due to the redemption of the senior subordinated debentures, an $11.0 million currency conversion loss, a $7.0 million charge related to the California remediation receivable balance and a $3.9 million gain related to life insurance proceeds.

Franchisee OSG&A Expense – The primary contributors to the increase in Franchisee OSG&A were increases of $45.3 million in compensation expense and $13.6 million in advertising expense. The increase in compensation expense was driven by an increase in the number of franchised stores.

Interest Expense, Net

Net interest expense for 2004 was $64.9 million, a decrease of $12 million, or 15.6%, from $76.9 million in 2003. The year-over-year decrease was primarily attributable to the retirement of the Cityplace Term Loan in April 2004 and the expiration of our interest-rate swaps in February 2004, partially offset by increases resulting from higher average borrowings under the SEJ Notes. See "—Liquidity and Capital Resources," "—Quantitative and Qualitative Disclosures About Market Risks—Interest Rate Risk Management," and Notes 1, 10 and 13 to the accompanying consolidated financial statements.

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Income Tax Expense

Income tax expense for 2004 was $64.0 million, an increase of $11.6 million, or 22.2%, from $52.4 million in 2003 as a result of higher earnings, which more than offset the $2.4 million tax benefit resulting from the expiration of the statute of limitations related to the 2000 tax-year. Our effective tax rate for 2004, including the tax benefit, was 37.1%, compared to 38.0% in 2003.

Discontinued Operations

Discontinued operations for 2004 resulted in a loss of $6.9 million (net of $4.3 million income tax benefit) compared to a loss of $13.2 million (net of $8.1 million income tax benefit) for the same period in 2003. The stores included in discontinued operations had total revenues of $43.7 million and $149.5 million and pretax operating losses of $11.1 million and $21.2 million for 2004 and 2003, respectively. Included in the loss on discontinued operations are losses on disposal of $1.4 million (net of $0.8 million tax benefit) and $6.2 million (net of $3.8 million tax benefit) for the years ended December 31, 2004 and 2003, respectively. The pretax loss for 2003 includes a gain of $5.3 million from the sale of 12 nonstrategic stores in Wisconsin. The losses on disposal include write-downs of stores to net realizable value, anticipated future rent and other expenses in excess of related estimated sublease income, as well as gains and losses on sales of stores.

Cumulative Effect of Accounting Change

Effective January 1, 2004, we adopted FIN 46R, which resulted in a one-time charge of $5.1 million, net of deferred tax benefit, related to the cumulative effect of the accounting change resulting from the consolidation of our franchisees. See "—Critical Accounting Policies and Estimates—Franchisees" and Note 2 to the accompanying consolidated financial statements.

Effective July 1, 2003, we adopted FIN 46, which resulted in a one-time charge of $10.2 million, net of deferred tax benefit, related to the cumulative effect of the accounting change resulting from the consolidation of two trusts that provided us with financing. See "—Other Issues—Recently Issued Accounting Standards" and Note 13 to the accompanying consolidated financial statements.

Net Earnings

Net earnings for 2004 were $96.5 million, or $0.81 per diluted share, an increase of $34.4 million from $62.1 million, or $0.57 per diluted share in 2003.

COMPARISON OF 2003 TO 2002 RESULTS

We have restated our previously issued consolidated financial statements to adjust the amortization expense of certain of our leasehold improvements to be the shorter of the economic useful life or the lease term as defined by SFAS No. 13. See "—Critical Accounting Policies and Estimates—Restatement of Previously Issued Financial Statements" and Note 1 to the accompanying consolidated financial statements.

We have reclassified certain prior-year amounts to conform to the current-year presentation, such as the results of operations of our franchisee-operated stores in accordance with FIN 46R and of certain owned and leased stores which are presented as discontinued operations in accordance with the provisions of SFAS No. 144 for all years discussed. See Note 1 to the accompanying consolidated financial statements.

Merchandise Sales

Years Ended December 31	Number of Stores 12/31/03	2002	2003	Increase/ (Decrease)	Percentage Change
(Dollars in millions)					
Merchandise Sales:					
U.S. same-store	5,063	$6,441.0	$6,651.2	$210.2	3.3%(1)
U.S. stores opened in 2003	74	—	31.7	31.7	n/a
U.S. stores opened in 2002	114	49.1	137.6	88.5	n/a
Canada stores	479	486.3	546.3	60.0	12.3%
Rebuilt/relocated stores	6	6.8	7.4	0.6	n/a
Vcom commissions	—	—	1.0	1.0	n/a
	5,736	$6,983.2	$7,375.2	$392.0	5.6%

(1) *Previously reported change of 3.2% in 2003 included stores that were subsequently closed and reclassified to discontinued operations in 2004.*

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The U.S. same-store merchandise sales increase of 3.3% for 2003 is on top of a 3.1% increase for 2002. The primary contributors to merchandise sales growth in 2003 were increases in cigarettes, beverages, beer and fresh foods.

Gasoline Sales

Years Ended December 31	2002	2003	Increase/ (Decrease)	Percentage Change
Gasoline sales (in millions)	$2,744.8	$3,355.1	$610.3	22.2%
Gallons sold (in millions)	1,976.4	2,106.7	130.3	6.6%
Average retail price per gallon	$ 1.39	$ 1.59	$ 0.20	14.4%
Gallons sold per store change	4.5%	4.2%		

We attribute the increase in gasoline sales in 2003 to the 20-cent increase in the average retail price of gasoline and to the 4.2% increase in per-store gallons sold in 2003. The increases in gasoline gallons sold and per-store gallons sold are primarily due to our day-to-day management of gasoline markets and retail pricing.

Merchandise Gross Profit

Years Ended December 31	2002	2003	Increase/ (Decrease)	Percentage Change
(In millions)				
Merchandise Gross Profit:				
U.S. same-store	$2,313.2	$2,382.9	$ 69.7	3.0%
U.S. stores opened in 2003	—	11.2	11.2	n/a
U.S. stores opened in 2002	17.6	50.1	32.5	n/a
Canada stores	147.1	171.3	24.2	16.5%
Vcom commissions	—	1.0	1.0	n/a
Other (1)	(20.8)	(17.6)	3.2	n/a
Total	$2,457.1	$2,598.9	$141.8	5.8%
Gross profit margin	35.19%	35.24%		
Gross profit growth per store		3.9%		

(1) Primarily represents costs of third-party combined distribution centers, which are not allocated to stores

The primary contributors to the merchandise gross profit growth in 2003 were increases in cigarettes, fresh foods, beverages, beer and tobacco.

The 5.8% year-over-year increase in gross profit dollars compared to a relatively small change in gross profit margin is attributable to our strategy of maximizing gross profit dollars. Our changing product mix affects merchandise margins as we sell more items that contribute to gross profit dollars but negatively impact gross profit margin, such as cigarette cartons. The impact of product assortment changes was partially offset by the continued emphasis on managing cost of goods sold.

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Gasoline Gross Profit

Years Ended December 31	2002	2003	Increase/ (Decrease)	Percentage Change
Gasoline gross profit (in millions)	$ 253.1	$ 325.2	$ 72.1	28.5%
Gross profit margin	(4.50)%	9.69%		
Gross profit margin cents per gallon	12.8	15.4	2.6	20.3%

The increases in gross profit margin on both a per-store and a per-gallon basis were primarily due to our daily management of gasoline combined with a more favorable market place.

Other Income

Other income consists primarily of area license royalties, Vcom fees and initial franchise fees. Other income for 2003 was $97.0 million, a decrease of $5.9 million, or 5.7%, from $102.9 million in 2002. Royalty income from our area licensees was $52.0 million in 2003, a decrease of $19.6 million from $71.6 million in 2002. The decrease was primarily due to the previously anticipated reduction in the SEJ licensing royalty rate. Under the terms of a 1988 amendment to our licensing agreement with SEJ, the royalty payments to us were reduced by approximately 70% beginning in August 2002. The decrease in the licensing royalties was partially offset by an increase of $17.2 million in Vcom fee income. See "—Liquidity and Capital Resources—VCOM®."

OSG&A Expense

The components of OSG&A expense are as follows:

Years Ended December 31	2002	2003	Increase/ (Decrease)	Percentage Change
(In millions)				
Company OSG&A expense	$1,934.3	$2,039.1	$104.8	5.4%
Franchisee OSG&A expense	708.0	767.2	59.2	8.4%
	$2,642.3	$2,806.3	$164.0	6.2%

The ratio of total OSG&A to revenues decreased to 25.9% for 2003 from 26.9% in 2002.

Company OSG&A Expense – The primary contributors to the increase in Company OSG&A expense for 2003 were increases of $74.4 million in occupancy costs, $30.3 million in employee-related costs and $14.8 million in credit card processing fees. The increase in occupancy costs was primarily a result of new stores and their associated costs; the increase in employee-related costs was primarily due to an increase in store labor expenses; and the increase in credit card processing fees was the result of higher dollar volume primarily from the increase in retail gasoline prices. Included in 2003 OSG&A was a $10.5 million gain due to the redemption of the senior subordinated debentures, an $11.0 million currency conversion loss and a $1.7 million charge related to infrastructure consolidation and other expenses. The 2003 charge for infrastructure consolidation and other expenses includes a $7.0 million charge related to the California remediation receivable balance and a $3.9 million gain related to life insurance proceeds. Included in 2002 OSG&A was a $14.9 million currency conversion loss and $10.7 million related to infrastructure consolidation and other expenses.

Franchisee OSG&A Expense – The key contributor to the increase in Franchisee OSG&A was a $46.9 million increase in compensation expense. The increase in compensation is driven by an increase in the number of franchised stores.

Interest Expense, Net

Net interest expense for 2003 was $76.9 million, an increase of $5.6 million, or 7.9%, from $71.3 million in 2002. The increase is primarily due to new borrowings of senior subordinated debt and to a lesser extent the impact of consolidated debt in accordance with FIN 46. These increases were partially offset by lower average borrowings under our commercial paper facility at lower average interest rates in 2003 than in 2002. See "—Liquidity and Capital Resources," "—Quantitative and Qualitative Disclosures About Market Risks—Interest Rate Risk Management," and Note 10 to the accompanying consolidated financial statements.

Income Tax Expense

Income tax expense for 2003 was $52.4 million, an increase of $12.6 million, or 31.8%, from $39.8 million in 2002. Our effective tax rate was 38.0% for 2003, compared to 40.0% in 2002. This

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decrease was due to a reduction of permanent differences between financial statement income and taxable income between the two years primarily due to $3.9 million in nontaxable income related to life insurance policies in 2002.

Discontinued Operations

Discontinued operations for 2003 resulted in a loss of $13.2 million (net of $8.1 million income tax benefit) compared to a loss of $19.9 million (net of $13.2 million income tax benefit) for the same period in 2002. The stores included in discontinued operations had total revenues of $149.5 million and $264.8 million and pretax operating losses of $21.2 million and $33.1 million for 2003 and 2002, respectively. Included in the loss on discontinued operations are losses on disposal of $6.2 million (net of $3.8 million tax benefit) and $13.9 million (net of $9.2 million tax benefit) for the years ended December 31, 2003 and 2002, respectively. The pretax loss for 2003 includes a gain of $5.3 million from the sale of 12 nonstrategic stores in Wisconsin. The losses on disposal include write-downs of stores to net realizable value, anticipated future rent and other expenses in excess of related estimated sublease income, as well as gains and losses on sales of stores.

Cumulative Effect of Accounting Change

Effective July 1, 2003, we adopted FIN 46, which resulted in a one-time charge of $10.2 million, net of deferred tax benefit, related to the cumulative effect of the accounting change resulting from the consolidation of two trusts that provided us with financing. See "—Other Issues—Recently Issued Accounting Standards" and Note 13 to the accompanying consolidated financial statements.

On January 1, 2002, we adopted SFAS No. 143, which resulted in a one-time charge of $28.1 million, net of deferred tax benefit, related to the cumulative effect of the accounting change which relates to the accounting for costs associated with future removal of underground gasoline storage tanks. See Note 9 to the accompanying consolidated financial statements.

Net Earnings

Net earnings for 2003 were $62.1 million, or $0.57 per diluted share, an increase of $50.5 million from $11.6 million, or $0.12 per diluted share, in 2002.

LIQUIDITY AND CAPITAL RESOURCES

We obtain the majority of our working capital from these sources:

- Cash flows generated from our operating activities;
- A $650 million commercial paper facility, guaranteed by Ito-Yokado Co., Ltd. ("IY"); and
- Borrowings of up to $200 million under our revolving credit facility.

We believe that operating activities and available working capital sources will provide sufficient liquidity in 2005 to fund our operating costs, capital expenditures and debt service. In addition, we intend to continue accessing the leasing market to finance our new stores.

We anticipate that our capital expenditures for 2005, excluding lease commitments, will be within a range of $390 million to $430 million. Anticipated capital expenditures for 2005 are expected to include the areas of new stores, information technology and maintenance. For 2004, our capital expenditures were primarily related to new-store development, equipment replacements and upgrades, and information technology. We opened 59 stores in 2004 and expect to open between 100 and 150 stores during 2005. See "—Liquidity and Capital Resources—VCOM® and Purchase of ATM Business" and Note 7 to the accompanying consolidated financial statements.

In April 2004, we retired the Cityplace Term Loan using a combination of proceeds from the sale of Cityplace and available corporate funds. The total retirement of the Cityplace Term Loan was $214.1 million. This was comprised of the outstanding loan balance, accrued interest and fees associated with prepayment of the loan of $7.5 million. The carrying amount of the property and equipment (and associated net rental amounts) that was sold was $104.7 million at the time of closing. See Note 10 to the accompanying consolidated financial statements.

Effective October 8, 2004, we terminated certain lease facilities that had provided us with financing. We had used the financings to construct new stores and acquire operating convenience stores from third parties not affiliated with us. After a store was constructed or acquired, we leased the store from trusts that were established to act as lessors. We paid the trusts rent equal to the interest expense on the applicable store's construction costs or, in the case of operating convenience stores, the acquisition price of the land, building, motor fuels equipment and other fixtures. The interest expense was

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LIBOR plus 2.1% for the 1999 facility and LIBOR plus 1.1% for the 2001 facility. The base lease terms under these facilities were set to expire in February 2005 and July 2006, respectively.

We consolidated the assets, liabilities, noncontrolling interests and results of activities of these trusts into our financial statements effective July 1, 2003, as required by FIN 46. Using available corporate funds, we paid $175.6 million to retire the loans and $12.7 million as a return on investment. The termination of the lease facilities resulted in a charge of $1.2 million to our consolidated statements of earnings in the fourth quarter of 2004. The charge represents the recognition of the remaining deferred loan costs as well as miscellaneous expenses associated with the closing. With the termination of the lease facilities, title to all assets previously owned by the trusts was transferred to us. See Notes 10 and 13 to the accompanying consolidated financial statements.

On October 26, 2004, we entered into a $200 million unsecured revolving credit agreement ("Credit Agreement") with a group of lenders. We are permitted to use the entire revolving credit facility to support the issuance of letters of credit, or we may draw on the facility for general corporate purposes. The revolving facility expires in October 2009. We terminated the previously existing $200 million revolving credit facility when we executed the new Credit Agreement. As of December 31, 2004, outstanding letters of credit under the facility totaled $113.3 million, and there were no outstanding borrowings under the facility.

Vcom® and Purchase of ATM Business

VCOM® is our proprietary self-service solution to meet consumer demands for convenient and continuously available financial services. We believe that our Vcom business represents a significant market opportunity to offer financial and other services to a segment of our current and future customers. We believe we are well-positioned to capitalize on this opportunity because of the demographics of our existing customer base and the large number of our conveniently located stores. Through exclusive agreements with third-party service providers, we offer traditional ATM services, money orders and money transfer services, check-cashing, prepaid phone cards, stored-value cards and bill payment services. These are primarily commission-based and are included in merchandise sales on the accompanying consolidated statements of earnings.

As of December 31, 2004, we had 1,037 VCOM® kiosks in our stores. In exchange for granting our strategic partners exclusive rights to offer their services or products on our VCOM® kiosks, these partners are generally required to pay us a percentage of the transaction fees and, in certain circumstances, placement fees. During the 12 months ended December 31, 2004, we received a total of $11.9 million in placement fees from our Vcom partners, of which $7.1 million is included in deferred income in our consolidated balance sheet. These fees are recognized in other income as earned in our consolidated statement of earnings.

During the first quarter of 2004, we recognized in income $6.2 million that was previously classified as deferred income due to the mutual termination of the Vcom check-cashing relationship with Certegy. We entered into an agreement with CashWorks, Inc., a subsidiary of General Electric Company, to provide check-cashing services on our VCOM® kiosks and transitioned that business to them in early April 2004. In addition, we recognized $4.6 million that was also previously classified as deferred income related to the mutually agreed-upon termination of our e-shopping relationship with Cyphermint. At the end of the first quarter, we entered into an arrangement with a commercial bank that provides the cash in the VCOM® kiosks. The fee charged to us by the commercial bank for our use of its cash is reflected in our Company OSG&A expense.

On August 16, 2004, we entered into a new agreement with a major financial services company. Under the terms of the agreement, we acquired the business that operated the ATM network then deployed in our stores for a purchase price (including acquisition costs) of $44.7 million of cash consideration and the assumption of certain contractual lease commitments and other contracts related to the business. In connection with this acquisition, we entered into an agreement with a commercial lender to provide cash in the ATM machines.

We are accounting for the acquisition under the purchase method. The purchase price includes the acquisition of approximately 4,500 ATM machines (as well as approximately 1,000 warehoused units, the majority of which were sold by December 31, 2004) and the right to receive all future ATM transaction revenue generated through both these machines and the more than 1,000 VCOM® kiosks that we currently own. During the fourth quarter, we finalized the purchase price allocation and, as a result of this analysis, recorded goodwill of $35.6 million representing the excess of purchase price over net assets acquired. See Note 7 to the accompanying consolidated financial statements.

Contractual Obligations and Commercial Commitments

Financial Obligations. A summary of our material contractual cash obligations as of December 31, 2004, is as follows (in millions):

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	2005	2006	2007	2008	2009	Thereafter	Total
Long-term debt (1)	$ 70.0	$ 69.5	$116.7	$118.1	$119.6	$ 309.5	$ 803.4
Capital lease obligations, including interest	41.8	39.4	35.6	29.1	27.4	179.6	352.9
Convertible quarterly income debt securities ("QUIDS")	—	—	—	—	—	300.0	300.0
Interest payments on long-term debt and QUIDS	37.4	39.0	40.0	37.3	33.2	41.7	228.6
Operating lease obligations	205.3	184.9	154.0	126.1	106.2	646.3	1,422.8
Purchase commitments (2)	2,708.0	1,540.0	79.0	43.0	17.0	10.0	4,397.0
Post-employment benefits (3)	3.9	4.0	4.0	4.0	4.0	33.5	53.4
Self-insurance obligations (3)	55.5	12.1	10.7	9.1	7.4	3.7	98.5
Contributions related to retirement plans	14.5	.2	.2	.2	.2	4.9	20.2
Employee annual performance incentive	40.0	—	—	—	—	—	40.0
Environmental liabilities	22.4	9.7	3.7	2.4	2.2	1.2	41.6
Underground gasoline storage tanks	1.8	2.0	2.0	2.0	2.0	47.4	57.2
Total	$3,200.6	$1,900.8	$445.9	$371.3	$ 319.2	$1,577.8	$7,815.6

(1) *Includes $267.3 million of commercial paper, $215.9 million of which is classified in "Thereafter."*

(2) *Refer to the Purchase Commitments table.*

(3) *We have estimated our future cash obligations based on historical information.*

Long-Term Debt. We have $650 million available under our commercial paper facility, of which $267.3 million was outstanding as of December 31, 2004. We have classified $215.9 million of the total amount outstanding as noncurrent debt because we intend to maintain at least this amount outstanding during the next year. Such debt is unsecured and is fully and unconditionally guaranteed by IY through 2006 under a written agreement. IY has agreed to continue through 2006 both the guarantee of the commercial paper issued and the waiver of its contractual right to receive from us a guarantee fee of 0.5% per year (accruing on a daily basis) on the face amount of commercial paper outstanding.

If we fail to repay the commercial paper as it matures, IY will become obligated to make such payments under its guarantee of our commercial paper facility. We would, in turn, be obligated to reimburse IY, subject to some restrictions in our credit agreement, for the costs associated with such a payment. Our credit agreement restrictions principally specify that we cannot make reimbursements until one year after we repay, in full, all amounts outstanding under the credit agreement. See "—Other Issues—Related Party Transactions—Commercial Paper" and Note 10 to the accompanying consolidated financial statements.

Our other long-term debt primarily consists of SEJ Notes of $400 million and yen-denominated loans of $134.5 million. See Note 10 to the accompanying consolidated financial statements.

There were no loans outstanding under the revolver at December 31, 2004. Letters of credit outstanding under the facility totaled $113.3 million at December 31, 2004, which have reduced available funds under the revolving credit facility to $86.7 million. Interest on borrowings is based on a variable rate equal to the highest of (a) the administrative agent bank's base rate, (b) 0.50% over the three-week moving average of three-month certificate of deposit, (c) 0.50% over the federal funds rate or, at our option, a rate equal to a reserve-adjusted Eurodollar rate plus a margin determined by our credit rating for senior long-term indebtedness.

Our revolving credit facility contains various financial and operating covenants customary for facilities of this nature that require, among other things, the maintenance of certain financial ratios including interest and rent coverage and leverage ratios. We do not anticipate drawing down any funds under our revolver in the near future. We were in compliance with all of the financial and operating covenants in our credit agreement as of December 31, 2004. See Note 10 to the accompanying consolidated financial statements.

Capital and Operating Lease Obligations. We utilize leases as a means of funding our property and equipment. Generally, real estate leases are for primary terms from 10 to 20 years with options to renew for additional periods and equipment leases are for terms from three to 10 years. Ground leases for stores are recorded as operating leases, while leased buildings and equipment are recorded

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as capital or operating leases in accordance with the provisions of SFAS No. 13, "Accounting for Leases," as amended. Capital lease obligations and related assets are included in our consolidated balance sheet. Operating lease obligations and related assets are not included in our consolidated balance sheet.

Store Leases. As of December 31, 2004, we operated or franchised approximately 5,800 stores in the United States and Canada. We own approximately 31% of these stores, and we lease the remainder. Over the next 5 years, leases covering more than half of our total leased stores will expire, including more than 1,300 leases that lack rent renewal options or contain negotiable rent options and more than 1,100 leases that have fixed rent options. We have devoted, and will continue to devote, considerable efforts to extending and/or renegotiating these leases.

	2005	2006	2007	2008	2009	Total
Lease expiring or with negotiable rent options	162	306	301	287	286	1,342
Fixed rent options	32	218	316	283	318	1,167
Total	194	524	617	570	604	2,509

We originally signed many of the expiring leases or leases with negotiable options in the 1970s and 1980s. Some of these leases had primary terms of 10 to 20 years, with as many as three options to renew for additional five-year terms. For those sites where we need to negotiate (a) a new lease to replace an expiring lease or (b) a new rental for those leases that have negotiable rent renewal options, we expect that we will pay prevailing market rates when the new lease term or option term commences, which will likely significantly increase our operating costs. If we are unable to agree on an appropriate rent for any one of these stores, we may decide to forego renewal of the lease and close the store.

If we have a fixed rent option, in most cases the rent will increase either to a specific predetermined dollar amount or as calculated based on a predetermined formula, such as an increase in the consumer price index. These rent increases will increase our operating costs.

QUIDS. SEJ currently holds $300 million of convertible quarterly income debt securities (QUIDS) from a transaction consummated in 1995. These securities can be converted into our common stock at a predetermined price. The securities bear interest at 4.5% annually and are subordinate to all existing debt. See "—Other Issues—Related Party Transactions—QUIDS" and Notes 11 and 21 to the accompanying consolidated financial statements.

Purchase Commitments. We have various material contracts with service and product vendors that contain commitments to purchase minimum levels of products or services. We also have material commitments for capital projects. We have estimated our material minimum purchase commitments as of December 31, 2004. These estimated commitments are summarized as follows (in millions):

	2005	2006	2007	2008	2009	Thereafter	Total
Distribution services	$ 961.0	$ —	$ —	$ —	$ —	$ —	$ 961.0
Gasoline supply (1)	1,401.0	1,443.0	—	—	—	—	2,844.0
IT commitments	79.0	50.0	42.0	33.0	7.0	—	211.0
Product and other commitments (2)	48.0	47.0	37.0	10.0	10.0	10.0	162.0
Capital commitments	219.0	—	—	—	—	—	219.0
Total	$2,708.0	$1,540.0	$79.0	$43.0	$17.0	$10.0	$4,397.0

(1) *We have estimated our future purchase commitments based on volumes purchased and our average cost for 2004 increased by approximately 3%.*

(2) *We have estimated our future purchase commitments based on our contracted volume at 2004 prices.*

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Distribution Services. We have a service agreement through January 2006 with McLane Company, Inc., under which McLane is the primary distributor of traditional grocery products to our U.S. stores and designated combined distribution centers in the United States. Under the terms of the agreement, we are required to purchase a minimum percentage of eligible purchases from McLane. We exceeded the minimum percentage in 2003 and 2004 and we expect to meet the minimum percentage in 2005. Our failure to purchase the minimum percentage of eligible purchases could result in a change in pricing of certain products.

Gasoline Supply. We are currently in the 19th year of a 20-year product purchase agreement with Citgo Petroleum Corporation. This agreement, which expires in September 2006, permits us to purchase gasoline from parties other than Citgo, but obligates us to purchase specified quantities of gasoline at market prices from Citgo. The minimum required annual purchases under this agreement are generally the lesser of 750 million gallons or 35% of all of the gasoline we purchase for retail sale. We have exceeded the minimum required annual purchases in all material respects in each year of the contract and expect to continue doing so in the future. See Note 15 to the accompanying consolidated financial statements.

IT Commitments. We have various information technology commitments that require us to purchase minimum amounts of products and services annually. We have exceeded such minimum purchase requirements in the past in all material respects and expect to continue doing so for the foreseeable future. Our failure to satisfy the minimum purchase requirements could cause us to make payments to the applicable provider(s) equal to the commitment(s) or a predetermined percentage of the commitment(s).

Product Commitments. We have various product purchase contracts that require us to purchase a minimum amount of products annually. We have generally exceeded such minimum purchase requirements in the past and expect to continue doing so for the foreseeable future. Our failure to satisfy the minimum purchase requirements could result in termination of the contracts, changes in pricing of the products and payments to the applicable provider(s) of a predetermined percentage of the commitment(s).

Other. We have contracts with certain of our combined distribution center operators that require us to process a certain level of products through the facilities. If we fail to do so, we must pay the applicable operator a predetermined fee. We estimate that we will pay approximately \$7.0 million in such fees over the next three years. For the years ended December 31, 2002, 2003 and 2004, we paid \$0.9 million, \$3.8 million and \$3.7 million, respectively. These amounts are reflected in merchandise cost of goods sold.

We have guaranteed \$3.7 million of a five-year, \$15 million note between one of our equity affiliates and a third-party lending institution. The affiliate obtained the loan to restructure existing debt. The guaranteed amount is the maximum potential amount that we could be required to pay in the event of default by the affiliate.

See Note 8, 9, 14 and 15 to the accompanying consolidated financial statements for discussion of other items in the financial obligations table.

Cash Flows from Operating Activities

Net cash provided by operating activities for 2004 was \$559.6 million compared to \$535.1 million for 2003, an increase of \$24.5 million or 4.6%. We attribute this increase to increased earnings during 2004. Partially offsetting this increase were changes in working capital items, primarily attributed to the timing of receipt of vendor allowances and other receivables, the timing of the payment of merchandise and gasoline payables, and increases in employee compensation payables.

Cash Flows from Investing Activities

Net cash used in investing activities for 2004 was \$227.1 million, a decrease of \$108.9 million, or 32.4%, from \$336.0 million for 2003. Included in investing activities for 2004, was the ATM acquisition for \$44.7 million and net proceeds of \$122.4 million from the sale of the headquarters building, parking garages and related facilities to an outside party.

Cash Flows from Financing Activities

Net cash used in financing activities was \$446.8 million for 2004, an increase of \$311.6 million from \$135.2 million for 2003. Contributing to this increase were net payments under commercial paper facilities of \$51.4 million combined with repayments of long-term debt of \$404.2 million, which consisted primarily of \$205.7 million from the payoff of the Cityplace Term Loan and \$175.6 million from the termination of the lease facilities.

OTHER ISSUES

Related Party Transactions

As of December 31, 2004, IYG Holding Co. ("IYG"), SEJ and IY, collectively held 73.77% of our common stock. As of December 31, 2004, IYG was owned 51% by IY and 49% by SEJ, a majority-owned subsidiary of IY. IYG is a Delaware corporation that was formed in 1991 to acquire and hold our common stock. On February 28, 2005, IY sold to SEJ its interest in both IYG and its independently held shares of our common stock and, as a result, we are currently 73.77% owned by SEJ and IYG. See Notes 1 and 21 to the accompanying consolidated financial statements.

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Commercial Paper. We entered into an agreement with IY pursuant to which IY agreed to fully and unconditionally guarantee our commercial paper facility. As a result of this guarantee, we achieve lower interest rates and better credit ratings than would otherwise be possible. Both the interest rates we pay on our commercial paper and our credit rating are affected by IY's credit rating, and a significant downgrade of IY's credit rating could adversely affect us. Due to IY's indirect ownership interest in our company, we expect our relationship with IY to continue in the future. See "—Liquidity and Capital Resources—Contractual Obligation and Commercial Commitments—Financial Obligations—Long-Term Debt" and Notes 1 and 10 to the accompanying consolidated financial statements.

QUIDS. SEJ holds $300 million of QUIDS from a transaction consummated in 1995. These securities can be converted at any time into our common stock at a predetermined price. The securities bear interest at 4.5% annually and are subordinate to all existing debt. The terms and conditions of the QUIDS transaction were approved in advance by a Special Committee comprised of three independent members of our board of directors. In deciding whether to approve the transaction, the Special Committee relied, in part, on fairness opinions delivered to the committee by financial institutions who conducted extensive due diligence prior to issuing their opinions. See Notes 11 and 21 to the accompanying consolidated financial statements.

License Royalties. In 2004 we received over $22.7 million of royalties from our area license agreement with SEJ. See Notes 1 and 10 to the accompanying consolidated financial statements.

SEJ Notes. SEJ holds $400 million of Senior Subordinated Notes that we issued in 2003. These notes were issued in four tranches under a 2003 note purchase agreement with SEJ. The weighted average interest rate for the SEJ notes is 3.4%.

Expansion in China. During the first quarter of 2004, we finalized an area license agreement for Beijing and the surrounding area in the People's Republic of China with an approved joint venture group. The joint venture is comprised of Seven-Eleven Japan, Co., Ltd., Beijing ShouLian (Capital Allied) Commercial Group Co., Ltd., and China National Sugar & Alcohol Group Corporation. The first 7-ELEVEN® store opened in Beijing on April 15, 2004, and a total of 10 stores were operating at year end. As part of this agreement, we recognized $2.0 million in other income for the year ended December 31, 2004.

Environmental

At December 31, 2004, our estimated undiscounted liability for our environmental costs related to remedial action at existing and previously operated gasoline storage sites and other operating and nonoperating properties where releases of regulated substances have been detected was $37.7 million. We anticipate that substantially all of the future remediation costs for detected releases of regulated substances at remediation sites of which we are aware, as of December 31, 2004, will primarily be incurred within the next five to six years. The estimated liability could change within the near future for several reasons, including (a) revisions to or the creation of governmental requirements, (b) existing remediation projects become fully defined, resulting in revised estimates of the cost to finish the projects and (c) unplanned future failures of underground gasoline storage tank systems.

Under state reimbursement programs, we are eligible to be reimbursed for a portion of future remediation costs, as well as a portion of remediation costs previously incurred. These reimbursement claims represent a firm and legally enforceable basis to recover remediation costs from the various state programs. At December 31, 2004, we had recorded a net receivable of $50.5 million for the estimated state reimbursements, of which $30.7 million relates to remediation costs incurred in the State of California. In assessing the probability of state reimbursements, we take into consideration each state's fund balance, revenue sources, existing claim backlog, status of cleaning activity and claim ranking. As a result of these assessments, the recorded receivable amounts at December 31, 2004, are net of allowances of $11.8 million. The estimated future state reimbursement amounts could change within the near future as governmental requirements and state reimbursement programs continue to be revised or extended.

While we cannot be certain of the timing of our receipt of state reimbursement funds, based on our experience we expect to receive the majority of state reimbursement funds within one to three years after our payment of eligible remediation expenses. This time period assumes that the state administrative procedures for processing such reimbursements have not changed.

The exception to our assumption regarding the timing of when we will receive state reimbursement funds is in California. The California reimbursement program separates claims into four classes: A, B, C and D. Our claims are in class D. In 2003, as a result of the growing backlog of Class D claims, we recorded a pretax charge of $7.0 million to OSG&A to reflect our best estimate of the fair value of the California remediation receivable at that time.

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Upon passage of California AB 1906 in 2004, which increased the expected funding of the state's reimbursement programs, we revised our estimate of when we would receive funds from California. As a result of this analysis, we recorded a $2.0 million increase in our net receivable from California for the year ended December 31, 2004. We have recorded the portion of the receivable that relates to remediation activities that have already been completed at a discount rate of approximately 4.9%. Thus, in addition to the allowance discussed above, the recorded receivable amount is also net of a discount of $19.4 million.

Any revisions to our estimated future remediation expenditures and related state reimbursement amounts could have a material impact on our operations and financial position.

Franchise Agreement Renewal

We have approximately 3,400 franchised stores as of December 31, 2004. We developed a new franchise agreement, which we began implementing in 2004, to replace agreements that expired in early 2004. The new agreement includes a revision to the gross profit split between us and the franchisees and provides for an advertising fee to be paid by the franchisees to us. In addition, the new agreement includes a requirement for a minimum-purchase percentage of franchisees' total purchases and cigarette purchases from our recommended vendors. The agreement is designed to better align our franchisees with our business strategies involving fresh foods, combined distribution and differentiation and to increase profits for our franchisees and us.

A committee of our franchisees evaluated the economic impact of the new agreement on our franchisees according to a procedure set forth in a 1998 court-approved settlement agreement. In February 2004, the committee advised us that the new agreement satisfied the economic impact standard contained in the settlement agreement. After that, all franchisees were offered the chance to sign the new agreement during 2004. As of December 31, 2004, franchisees operating 3,251 stores, or approximately 95% of total franchised stores, had signed the new franchise agreement. See Notes 1 and 2 to the accompanying consolidated financial statements.

The terms of the new agreement have not had a material adverse impact on either our franchisees or us.

Recently Issued Accounting Standards

In May 2004, the FASB issued FASB Staff Position No.106-2 ("FSP 106-2"), "Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003," (the "Act"). FSP 106-2 supersedes FSP 106-1, which was issued in January 2004 under the same title. The Act concerns prescription drug benefits under Medicare ("Medicare Part D") as well as a federal subsidy to sponsors of retiree healthcare benefit plans that provide a benefit that is at least actuarially equivalent to Medicare Part D. FSP 106-2 applies only to sponsors of defined benefit postretirement health care plans for which (a) the employer has concluded that prescription drug benefits available under the plan are actuarially equivalent to Medicare Part D and thus qualify for the subsidy under the Act and (b) the expected subsidy will offset or reduce the employer's share of the cost of postretirement prescription drug coverage provided by the plan. In general, FSP 106-2 concludes that plan sponsors should follow SFAS No. 106 (see Note 14) in accounting for the effects of the Act. Specifically, the effect of the subsidy on benefits attributable to past service cost should be accounted for as an actuarial experience gain and the effect of the subsidy on future costs should be accounted for as a reduction in service cost. We adopted the provisions of FSP 106-2 effective July 1, 2004, but were deferring recognition as allowed pending the issuance of authoritative guidance and its effect, if any, on our financial position, results of operations and financial statement disclosure. On January 21, 2005, the Centers for Medicare and Medicaid Services issued such guidance by releasing final regulations implementing the Act. These regulations, which we are currently evaluating, provide new and additional guidance for determining actuarial equivalency. However, based on the current design of our postretirement healthcare benefit plan, we believe that it is unlikely that the prescription drug benefits available under our plan will be actuarially equivalent to Medicare Part D, and we will therefore not qualify for the subsidy under the Act.

In November 2004, the FASB issued SFAS No. 151, "Inventory Costs." SFAS 151 requires that fixed production costs be allocated to inventory based on the normal capacity of production facilities and that unallocated overheads be recognized as an expense in the periods in which they are incurred. In addition, other items such as abnormal freight, handling costs and amounts of excess spoilage require treatment as current-period charges rather than a portion of the inventory cost. SFAS No. 151 is effective for inventory costs incurred during periods beginning after June 15, 2005. We are currently assessing the requirements of the standard, which will be adopted effective January 1, 2006, but we do not believe that its adoption will have a material impact, if any, on our consolidated financial position or results of operations.

In December 2004, the FASB issued SFAS No. 123 (revised 2004), "Share-Based Payment," ("SFAS 123R"), which revises SFAS No. 123,

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"Accounting for Stock-Based Compensation," and supersedes APB Opinion No. 25, "Accounting for Stock Issued to Employees." SFAS 123R establishes standards for accounting for transactions in which an entity exchanges its equity instruments for goods or services. The primary focus of SFAS 123R is on employee services obtained in share-based payment transactions. SFAS 123R requires that all share-based payments to employees be recognized in the financial statements based on their fair values beginning with the first interim or annual reporting period that begins after June 15, 2005, with early adoption encouraged. The fair value of a share-based payment transaction is to be determined by an option-pricing model as of the grant date of the award. The cost will be recognized over the period during which an employee is required to provide services in exchange for the award.

The implementation guidance of SFAS 123R requires that a company elect a transition method to be used at the date of adoption. The transition methods include both prospective and retrospective options for adopting. Under the retrospective transition options, prior periods may be restated either as of the beginning of the year of adoption or for all periods presented. The prospective method requires that compensation expense be recorded for all unvested awards at the beginning of the first period of adoption of SFAS 123R, while the retrospective methods require that compensation expense for all unvested awards be recorded beginning with the first period restated.

We will adopt the provisions of SFAS 123R effective July 1, 2005. We intend to elect the retrospective transition method, with all prior periods presented restated to include expense previously calculated under SFAS No. 123 for pro forma footnote disclosures. Based on our preliminary analysis of SFAS No. 123R, we anticipate that the after-tax impact of adoption on our earnings from continuing operations for the year ended December 31, 2005, will be an expense of approximately $6.0 million to $7.0 million.

Subsequent Event

On February 28, 2005, IY sold to SEJ its interest in both IYG and its independently held shares of our common stock. This transaction between IY and SEJ, which is a majority-owned subsidiary of IY, does not impact us. Following the transaction, we are 73.77% owned by IYG and SEJ. See Notes 1 and 21 to the accompanying consolidated financial statements.

QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

The following discussion summarizes the financial and derivative instruments we held as of December 31, 2004. These instruments are sensitive to changes in interest rates, foreign exchange rates and equity prices. From time to time, we use interest-rate swaps to manage the primary market exposures associated with underlying liabilities and anticipated transactions. We use these instruments to reduce risk by essentially creating offsetting market exposures. In addition, our two yen-denominated loans effectively serve as an economic hedge of our exposure to yen-dollar currency fluctuations resulting from our significant yen-based royalty from SEJ. We do not leverage the instruments we hold, and we hold the instruments for purposes other than trading. In the normal course of business, we also face risks that are either nonfinancial or nonquantifiable, such as country risk, credit risk and legal risk, and we have not addressed these risks in this discussion.

Interest-Rate Risk Management

As of December 31, 2004, approximately 29.4% of our debt contained floating rates that will be impacted by changes in interest rates. The weighted-average interest rate for such debt was 2.4% for the year ended December 31, 2004, as compared to 3.3% for the year ended December 31, 2003.

The following table provides descriptions, principal cash flows by maturity date and the related estimated average interest rates of the floating-rate financial instruments we held at December 31, 2004.

	2005	2006	2007	2008	2009	Thereafter	Total	Fair Value
(Dollars in millions)								
Floating-rate financial instrument:								
Commercial paper(1)	$ 51	$ —	$ —	$ —	$ —	$216	$267	$267
Capital lease-VCOM* equipment	$ 8	$ 8	$ 8	$ 10	$ —	$ —	$ 34	$ 34
Average interest rate:								
Commercial paper	3.3%	4.1%	4.6%	5.0%	5.0%	5.0%	4.5%	
Capital lease-VCOM* equipment	4.5%	5.3%	5.8%	6.2%	—	—	5.5%	

(1) *See "—Liquidity and Capital Resources—Contractual Obligations and Commercial Commitment—Long-term Debt."*

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Foreign-Exchange Risk Management

Our $58.5 million of royalty income in 2004 was impacted by fluctuating exchange rates. Approximately 39% of such royalties were from area license agreements with SEJ. By using our SEJ royalty to service the principal and interest payments on our yen loans, we have an economic hedge against fluctuations in the Japanese yen to U.S. dollar exchange rate. Although SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," nullified the hedge accounting treatment we were applying to the SEJ royalty and our yen-denominated loans, our economic hedge against changes in the Japanese yen to U.S. dollar exchange rate remains in place. We adjust the balance of the yen loans at each reporting date to reflect the current Japanese yen to U.S. dollar exchange rate, and the resulting foreign currency exchange gain or loss is recognized in earnings. Based on our yen-denominated debt balance as of December 31, 2004, a one-point increase or decrease in the Japanese yen to U.S. dollar exchange rate would result in an increase or decrease in pretax earnings of approximately $1.3 million. See "—Critical Accounting Policies and Estimates—Yen Loans" and Notes 1 and 10 to the accompanying consolidated financial statements.

In addition, we are exposed to fluctuating exchange rates on the portion of our royalties earned in foreign currencies that are not attributable to our license agreement with SEJ, but we do not believe future risk is material based on current estimates. We also have certain wholly or partially owned foreign subsidiaries and are susceptible to exchange-rate risk on earnings from these subsidiaries; based on current estimates, however, we do not consider future foreign-exchange risk to be material.

Equity-Price Risk Management

We hold equity securities of other companies. We classify these securities as available for sale and carry them on our consolidated balance sheet at fair value. At December 31, 2004, we held shares of Affiliated Computer Services, Inc. common stock (the "ACS shares"), which had no cost basis but had a fair value of $162,332. We obtained the ACS shares in 1988 as part of our mainframe data processing contract with ACS. At that time, ACS was a privately held start-up company. Accordingly, the stock was valued with no cost.

Changes in fair value are recognized as other comprehensive earnings, net of tax, as a separate component of shareholders' equity.

Consolidated Balance Sheets

December 31	2003	2004
(Dollars in thousands, except share data)	*Restated*	
ASSETS		
Current assets		
Cash and cash equivalents	$ 190,513	$ 76,214
Accounts receivable, net	153,494	187,751
Inventories	279,130	286,063
Other current assets	162,847	182,334
Total current assets	785,984	732,362
Property and equipment, net	2,395,662	2,293,147
Goodwill and other intangible assets, net	140,412	175,649
Other assets, net	128,571	110,968
Total assets	$3,450,629	$3,312,126
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Trade accounts payable	$ 270,747	$ 335,380
Accrued expenses and other liabilities	570,181	646,177
Commercial paper	—	51,400
Long-term debt due within one year	39,828	40,370
Total current liabilities	880,756	1,073,327
Deferred credits and other liabilities	420,764	458,408
Senior Subordinated Notes due to SEJ	400,000	400,000
Other long-term debt	1,035,490	534,610
Minority Interest	82,028	81,320
Convertible quarterly income debt securities	300,000	300,000
Commitments and contingencies		
Shareholders' equity		
Preferred stock, $.01 par value; 5,000,000 shares authorized; no shares issued and outstanding	—	—
Common stock, $.0001 par value; 1,000,000,000 shares authorized; 111,834,262 and 113,738,526 shares issued and outstanding	11	11
Additional capital	1,251,428	1,277,835
Accumulated deficit	(934,444)	(837,938)
Unearned compensation	(796)	(1,488)
Accumulated other comprehensive earnings	15,392	26,041
Total shareholders' equity	331,591	464,461
Total liabilities and shareholders' equity	$3,450,629	$3,312,126

See notes to consolidated financial statements.

Consolidated Statements of Earnings

Years Ended December 31 *(Dollars in thousands, except per-share data)*	2002 *Restated*	2003 *Restated*	2004
REVENUES			
Merchandise sales	$6,983,241	$ 7,375,179	$ 7,893,059
Gasoline sales	2,744,776	3,355,138	4,227,907
Net sales	9,728,017	10,730,317	12,120,966
Other income	102,816	96,962	125,117
Total revenues	9,830,833	10,827,279	12,246,083
COSTS AND EXPENSES			
Merchandise cost of goods sold	4,526,170	4,776,274	5,079,616
Gasoline cost of goods sold	2,491,661	3,029,925	3,885,529
Total cost of goods sold	7,017,831	7,806,199	8,965,145
Operating, selling, general and administrative expenses	2,642,341	2,806,316	3,043,525
Interest expense, net	71,276	76,896	64,898
Total costs and expenses	9,731,448	10,689,411	12,073,568
EARNINGS FROM CONTINUING OPERATIONS BEFORE INCOME TAX EXPENSE AND CUMULATIVE EFFECT OF ACCOUNTING CHANGE	99,385	137,868	172,515
INCOME TAX EXPENSE	39,754	52,390	64,018
EARNINGS FROM CONTINUING OPERATIONS BEFORE CUMULATIVE EFFECT OF ACCOUNTING CHANGE	59,631	85,478	108,497
LOSS ON DISCONTINUED OPERATIONS (net of tax benefit of $13,237, $8,066 and $4,291)	(19,857)	(13,161)	(6,854)
CUMULATIVE EFFECT OF ACCOUNTING CHANGE (net of tax benefit of $18,759, $6,550 and $3,284)	(28,139)	(10,244)	(5,137)
NET EARNINGS	$ 11,635	$ 62,073	$ 96,506
NET EARNINGS PER COMMON SHARE			
Basic			
Earnings from continuing operations before cumulative effect of accounting change	$ .57	$ .80	$ .97
Loss on discontinued operations	(.19)	(.12)	(.06)
Cumulative effect of accounting change	(.27)	(.10)	(.05)
Net earnings	$ .11	$ .58	$ .86
Diluted			
Earnings from continuing operations before cumulative effect of accounting change	$ .55	$ .75	$ .90
Loss on discontinued operations	(.18)	(.10)	(.05)
Cumulative effect of accounting change	(.25)	(.08)	(.04)
Net earnings	$ .12	$ .57	$ .81

See notes to consolidated financial statements.

Consolidated Statements of Shareholders' Equity

	Common Stock					Accumulated Other Comprehensive Earnings (Loss)		
(Dollars and shares in thousands)	Shares	Par Value	Additional Capital	Accumulated Earnings (Deficit)	Unearned Compensation	Unrealized Gains (Losses)	Foreign Currency Translation	Shareholders' Equity
Balance at December 31, 2001, as previously reported	104,809	$10	$1,166,624	$(1,002,884)	$ —	$(1,751)	$(9,524)	$152,475
Cumulative effect of restatement for lease accounting (see Note 1)				(5,268)				(5,268)
Balance at December 31, 2001, as restated	104,809	10	1,166,624	(1,008,152)	—	(1,751)	(9,524)	(147,207)
Net earnings, as restated				11,635				11,635
Other comprehensive earnings (loss):								
Unrealized loss on equity securities (net of ($49) deferred taxes)						(270)		(270)
Reclassification adjustments for gains included in net earnings (net of $1,195 deferred taxes)						(1,812)		(1,812)
Unrealized gain related to interest rate swap (net of $346 deferred taxes)						92		92
Foreign currency translation							(256)	(256)
Total other comprehensive loss								(2,246)
Comprehensive earnings								9,389
Unearned compensation					(1,068)			(1,068)
Issuance of stock	168		1,558					1,558
Balance at December 31, 2002, as restated	104,977	10	1,168,182	(996,517)	(1,068)	(3,741)	(9,780)	157,086
Net earnings, as restated				62,073				62,073
Other comprehensive earnings (loss):								
Unrealized gain on equity securities (net of $42 deferred taxes)						18		18
Reclassification adjustments for gains included in net earnings (net of $799 deferred taxes)						(1,198)		(1,198)
Unrealized gain related to interest rate swap (net of $5,304 deferred taxes)						6,505		6,505
Unrealized loss related to benefit plan (net of ($156) deferred taxes)						(244)		(244)
Foreign currency translation							23,832	23,832
Total other comprehensive earnings								28,913
Comprehensive earnings								90,986
Unearned compensation					272			272
1998 QUIDS conversion to stock	6,502	1	79,692					79,693
Issuance of stock	355		3,554					3,554
Balance at December 31, 2003, as restated	111,834	11	1,251,428	(934,444)	(796)	1,340	14,052	331,591
Net earnings, as restated				96,506				96,506
Other comprehensive earnings (loss):								
Unrealized loss on equity securities (net of ($24) deferred taxes)						(37)		(37)
Reclassification adjustments for losses included in net earnings (net of $1,172 deferred taxes)						(1,834)		(1,834)
Unrealized gain related to interest rate swap (net of $348 deferred taxes)						386		386
Unrealized loss related to benefit plan (net of ($228) deferred taxes)						(357)		(357)
Foreign currency translation							12,491	12,491
Total other comprehensive earnings								10,649
Comprehensive earnings								107,155
Unearned compensation					(692)			(692)
Issuance of stock	1,905		26,407					26,407
Balance at December 31, 2004	113,739	$11	$1,277,835	$ (837,938)	$(1,488)	$ (502)	$26,543	$464,461

See notes to consolidated financial statements.

Consolidated Statements of Cash Flows

Years Ended December 31	2002	2003	2004
(Dollars in thousands)	*Restated*	*Restated*	
CASH FLOWS FROM OPERATING ACTIVITIES			
Net earnings	$ 11,635	$ 62,073	$ 96,506
Adjustments to reconcile net earnings to net cash provided by operating activities:			
Cumulative effect of accounting change	28,139	10,244	5,137
Depreciation and amortization of property and equipment	281,710	310,165	333,166
Other amortization	355	220	123
Deferred income taxes	19,413	24,157	8,902
Noncash interest expense	1,242	182	1,929
Foreign currency net conversion loss	14,930	11,002	6,326
Other noncash (income) expense	(744)	5,119	5,669
Gain on debt redemption	—	(10,455)	—
Net loss on disposal of property and equipment	25,085	13,149	5,889
(Increase) decrease in accounts receivable	(32,196)	32,720	(36,353)
(Increase) decrease in inventories	(14,516)	7,342	(6,933)
Decrease (increase) in other assets	1,546	(11,333)	(14,951)
Increase in trade accounts payable and other liabilities	160,737	80,482	154,206
Net cash provided by operating activities	497,336	535,067	559,616
CASH FLOWS FROM INVESTING ACTIVITIES			
Payments for purchase of property and equipment	(426,583)	(338,581)	(312,318)
Proceeds from sale of property and equipment	16,515	16,630	129,986
Proceeds from sale of domestic securities	2,996	1,989	2,995
Restricted cash	(37,147)	(16,110)	(3,041)
Acquisition of a business	—	—	(44,743)
Other	(418)	90	40
Net cash used in investing activities	(444,637)	(335,982)	(227,081)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from commercial paper and revolving credit facilities	5,853,757	5,104,368	5,675,195
Payments under commercial paper and revolving credit facilities	(5,848,694)	(5,261,716)	(5,726,634)
Proceeds from issuance of long-term debt	—	400,000	—
Principal payments under long-term debt agreements	(40,831)	(400,213)	(404,224)
(Decrease) increase in outstanding checks in excess of cash in bank	(20,637)	19,350	(15,465)
Net proceeds from issuance of common stock	51	3,057	24,994
Other	(939)	(42)	(700)
Net cash used in financing activities	(57,293)	(135,196)	(446,834)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(4,594)	63,889	(114,299)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	131,218	126,624	190,513
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 126,624	$ 190,513	$ 76,214
RELATED DISCLOSURES FOR CASH FLOW REPORTING			
Interest paid (including capitalized interest), excluding SFAS No.15 Interest	$ (69,641)	$ (70,604)	$ (62,151)
Net income taxes refunded (paid)	$ 13,608	$ (13,125)	$ (62,785)
Assets obtained by entering into capital leases and other debt arrangements	$ 42,536	$ 51,580	$ 12,129
1998 Yen Loan principal and interest payments from restricted cash	$ (42,399)	$ (16,190)	$ (17,660)
1998 QUIDS conversion to common stock	$ —	$ (79,693)	$ —

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements

NOTE 1: ACCOUNTING POLICIES

Principles of Consolidation – 7-Eleven, Inc. and its subsidiaries ("the Company") is 73.77% owned by Seven-Eleven Japan Co., Ltd. ("SEJ") and its affiliate IYG Holding Company ("IYG") (see Note 21). SEJ is a majority-owned subsidiary of Ito-Yokado Co., Ltd. ("IY"). The Company and its franchisees operate approximately 5,800 7-ELEVEN® and other convenience stores in the United States and Canada. Area licensees, or their franchisees, and affiliates operate approximately 22,000 additional 7-ELEVEN® convenience stores in certain areas of the United States, in 15 other countries and in the U.S. territories of Guam and Puerto Rico.

The consolidated financial statements include the accounts of 7-Eleven, Inc., its subsidiaries and franchisees (see Note 2). Intercompany transactions and account balances are eliminated. Certain prior-year amounts have been reclassified to conform to the current-year presentation. Sales by stores operated under domestic and foreign area license agreements are not included in consolidated revenues. All fees or royalties arising from these agreements are included in other income. Initial fees, which have been immaterial, are recognized when the services required under the agreements are performed.

The Company adopted the provisions of Financial Accounting Standards Board ("FASB") Interpretation No. 46, "Consolidation of Variable Interest Entities – an Interpretation of ARB No. 51," ("FIN 46") as of July 1, 2003, and the subsequent revision to FIN 46 ("FIN 46R") as of January 1, 2004. Prior to the issuance of FIN 46, the criteria for consolidation were prescribed by Accounting Research Bulletin No. 51, "Consolidated Financial Statements," and were principally based on control through ownership of voting interests. As defined by FIN 46R, the Company's franchisees are independent contractors in whom the Company is deemed to have a controlling financial interest. Accordingly, as a result of adopting FIN 46 and FIN 46R, the Company has included the assets, liabilities, equity and results of operations of its franchise stores in its consolidated financial statements (see Note 2). Prior-year presentations of the financial position, results of operations and cash flows of these stores have been reclassified to conform to the current-year consolidation presentation. In addition, as a result of adopting FIN 46, the consolidated financial statements as of December 31, 2003, include the accounts of certain variable interest entities ("VIEs"). These VIEs were subsequently dissolved effective October 8, 2004, when the Company terminated certain of its lease facilities (see Notes 10 and 13).

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and revenues and expenses during the reporting period. Such estimates are based on historical experience and on various other assumptions that the Company believes to be reasonable under the circumstances. The results of these estimates form the basis of the Company's judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

Restatement of Previously Issued Financial Statements – In connection with the December 31, 2004, year-end reporting, the Company reviewed its lease accounting and leasehold depreciation policies and determined it was appropriate to restate its previously issued financial statements. Historically, the Company had been amortizing certain leasehold improvements on operating leases over periods that extended beyond the term of the lease. The Company has revised its accounting and restated its previously issued financial statements to adjust the amortization expense of certain of its leasehold improvements to be the shorter of the economic useful life or the lease term as defined by Statement of Financial Accounting Standard ("SFAS") No. 13, "Accounting for Leases."

As a result of the restatements above, the Company has recorded increases of $1.9 million and $3.3 million to operating, selling, general and administrative ("OSG&A") expense for the years ended December 31, 2002 and 2003, respectively. The effects of these restatements were as follows:

Notes to Consolidated Financial Statements

	2002		2003	
(Dollars in thousands, except per share data)	Impact of Restatement	As Restated	Impact of Restatement	As Restated
As of December 31:				
Property and equipment, net	$	$	$(13,804)	$2,395,662
Other assets			566	128,571
Total assets			(13,238)	3,450,629
Accrued expenses and other liabilities			(30)	570,181
Deferred credits and other liabilities			(4,777)	420,764
Accumulated deficit	(6,410)	(996,517)	(8,431)	(934,444)
Total shareholders' equity	(6,410)	157,086	(8,431)	331,591
Total liabilities and shareholders' equity			(13,238)	3,450,629
Years Ended December 31:				
OSG&A	$ 1,903	$ 2,642,341	$ 3,259	$2,806,316
Earnings from continuing operations before income tax expense and cumulative effect of accounting change	(1,903)	99,385	(3,259)	137,868
Income tax expense	(761)	39,754	(1,238)	52,390
Earnings from continuing operations before cumulative effect of accounting change	(1,142)	59,631	(2,021)	85,478
Net earnings	(1,142)	11,635	(2,021)	62,073
Basic EPS	(0.01)	0.11	(0.02)	0.58
Diluted EPS	(0.01)	0.12	(0.01)	0.57

These restatements had no impact on the Company's cash flows from operating, investing, and financing activities. In addition, the company has reduced its opening shareholders' equity balance by $5.3 million as of December 31, 2001.

Operating Segment – The Company operates in a single operating segment – the operating, franchising and licensing of convenience food stores, primarily under the 7-ELEVEN® name.

The Company does not rely on any major customers as a source of revenue. Excluding area license royalties, which are included in other income as noted above, the Company's operations are concentrated in the United States and Canada. Net sales from Canadian operations approximated 8% of the Company's total net sales for the years ended December 31, 2002, 2003 and 2004. Approximately 6% and 7% of the Company's long-lived assets for the years ended December 31, 2003 and 2004, respectively, are located in Canada.

Revenues – Revenues from the Company's two major product categories, merchandise and gasoline, are recognized at the point of sale. Based on the total dollar volume of store purchases, management estimates that the percentages of its convenience store merchandise sales by principal product category for the last three years were as follows:

Product Categories

Years Ended December 31	2002	2003	**2004**
Tobacco	28.1%	29.4%	**29.1%**
Beverages	23.0%	23.1%	**23.5%**
Beer/Wine	11.2%	11.4%	**11.2%**
Candy/Snacks	10.9%	10.5%	**10.0%**
Non-Foods	7.6%	7.0%	**6.9%**
Fresh Foods	6.7%	7.2%	**7.7%**
Dairy	4.5%	4.4%	**4.4%**
Other	4.6%	3.6%	**3.5%**
Total Product Sales	96.6%	96.6%	**96.3%**
Services	3.4%	3.4%	**3.7%**
Total Merchandise Sales	100.0%	100.0%	**100.0%**

Services include lottery, ATM, prepaid cards and money order service fees/commissions for which there are little, if any, costs included in merchandise cost of goods sold.

Other Income – Other income is primarily area license royalties, franchise fee income and Vcom fees. Area license royalties, which are recognized as revenue when earned, were $71.6 million,

Notes to Consolidated Financial Statements

$52.0 million and $58.5 million and include amounts from area license agreements with SEJ of $43.2 million, $20.1 million and $22.7 million for the years ended December 31, 2002, 2003 and 2004, respectively. Beginning in August 2002, royalty payments from SEJ were reduced by approximately 70% in accordance with the terms of the license agreement.

In 2004, the Company began using a new franchise agreement with a term of 15 years (see Note 2). The Company offered the new agreement to all existing franchisees, even if the franchisee's current agreement had not yet expired, and to all new franchisees. Under both the former agreement and the new agreement, the initial franchise fees are generally calculated based on gross profit dollar experience for the store or market area. These fees cover certain costs including training, an allowance for lodging for the trainees and other costs relating to the franchising of the store. Initial franchise fees recognized in earnings were $20.0 million, $17.9 million and $25.1 million for the years ended December 31, 2002, 2003 and 2004, respectively.

The Company has a program in place to finance the franchise fee for a qualifying franchisee. The Company defers the recognition of fees that it does not finance until its obligations under the agreement are completed and a 90-day franchisee termination and refund period has passed. Franchise fees that are financed by the Company are recognized in income as payments are received from the franchisee (after the 90-day period).

The Company defers the recognition of proceeds received in advance of satisfying revenue recognition criteria. These funds, which primarily relate to fees received from Vcom partners, are recognized as revenue when earned, as specified by the substance of the applicable agreement. The Company recognized $3.0 million of such fees as an offset to costs associated with VCOM® in OSG&A expense in 2002; no fees were offset in this manner in 2003 and 2004. The Company recognized $3.7 million, $20.8 million and $32.5 million of fees in other income in 2002, 2003 and 2004, respectively (see Notes 8 and 9).

In 2004, the Company and two of its Vcom partners mutually agreed to terminate their relationships. One of these partners has been replaced with another check-cashing partner. Included in the amount recognized in other income above for the year ended December 31, 2004, was $10.8 million that resulted from the termination of these relationships. These funds were related to the Company's Vcom agreements with its former partners and were being deferred and recognized as income when earned, as specified by the substance of the applicable agreement. The Company does not recognize proceeds it receives until the applicable revenue recognition criteria have been satisfied. Because the relationships were terminated, and the Company has no further obligations under the agreements, recognition of the income was accelerated.

Cost of Goods Sold – Merchandise cost of goods sold includes the costs of products sold, merchandise write-offs, product shortages and the impact of LIFO on the U.S. company-operated stores' merchandise inventory. Gasoline cost of goods sold includes the cost of fuel sold, customer drive-offs, inventory shrinkage and the impact of LIFO on the U.S. company-operated stores' gasoline inventory.

Operating, Selling, General and Administrative Expenses – OSG&A expense includes occupancy expenses, employee compensation, data processing, insurance, professional fees, legal settlements, environmental costs, foreign currency gains and losses and other corporate expenses. Advertising costs, also included in OSG&A, generally are charged to expense as incurred and were $38.9 million, $44.9 million and $32.5 million for the years ended December 31, 2002, 2003 and 2004, respectively.

The presentation of the consolidated statements of earnings changed as a result of the adoption of FIN 46R in 2004. The historically reported franchisee gross profit expense was eliminated and is now included in OSG&A expense. The primary components of OSG&A expense for franchised stores are payroll-related items, insurance and business taxes. The net earnings or loss of franchised stores is included in OSG&A because it represents owner compensation.

Interest Expense – Interest expense is net of interest income and capitalized interest. Interest income was $3.1 million, $2.6 million and $1.3 million, and capitalized interest was $3.8 million, $4.4 million and $1.8 million for the years ended December 31, 2002, 2003 and 2004, respectively.

Income Taxes – Income taxes are determined using the liability method, where deferred tax assets and liabilities are recognized for temporary differences between the tax basis of assets and liabilities and their reported amounts in the financial statements. Deferred tax assets include tax carryforwards and are reduced by a valuation allowance if, based on available evidence, it is more likely than not that some portion or all of the deferred tax assets will not be realized.

Cash and Cash Equivalents – The Company considers all highly liquid investment instruments purchased with original maturities of three months or less to be cash equivalents. Cash and cash equivalents include temporary cash investments of $11.1 million and $1.7 million at December 31, 2003 and 2004, respectively, stated at cost, which approximates market.

Notes to Consolidated Financial Statements

The Company utilizes a cash-management system under which a book cash overdraft exists for the Company's primary disbursement accounts. These overdrafts represent uncleared checks in excess of cash balances in bank accounts at the end of the reporting period. The Company transfers cash on an as-needed basis to fund clearing checks (see Note 8).

Inventories – Inventories are stated at the lower of cost or market. Cost is generally determined by the LIFO method for Company-operated stores in the United States and by the FIFO method for stores in Canada and for stores operated by franchisees. Although the LIFO method generally matches the most recent product cost with related revenues, decreases in inventory quantities can result in a liquidation of LIFO inventory layers recorded at costs that are lower than the current costs, which could lower cost of goods sold and increase profit margins (see Note 4).

Allowance for Doubtful Accounts – The Company maintains an allowance for doubtful accounts for estimated losses resulting from the inability of third parties to make required payments. These amounts are primarily generated from accounts related to rent, notes receivable, casualty losses and environmental reimbursements. Management analyzes the collectibility of accounts receivable balances and records an allowance when it becomes apparent that amounts due may not be collected.

Allowances and Credits from Vendors – The Company receives various types of allowances and credits from vendors which primarily include cigarette buy-downs, display allowances and billback allowances. These are recorded as a reduction to merchandise inventory costs. The Company also receives co-op advertising allowances, which are offset against advertising expense in OSG&A as incurred. Co-op advertising allowances received for the years ended December 31, 2002, 2003 and 2004, were $24.1 million, $10.7 million and $16.7 million, respectively.

Depreciation and Amortization – Depreciation of property and equipment is based on the estimated useful lives of these assets using the straight-line method. Acquisition and development costs for significant business systems and related software for internal use are capitalized and are depreciated or amortized on a straight-line basis. Included in depreciation and amortization of property and equipment in the accompanying consolidated statements of cash flows is software amortization expense of $39.2 million, $49.5 million and $59.4 million for the years ended December 31, 2002, 2003 and 2004, respectively. Amortization of capital lease assets and associated leasehold improvements is based on the lease term or the estimated useful life, whichever is shorter. Amortization of leasehold improvements on operating leases is based on the shorter of the economic useful life or the lease term.

The following table summarizes the years over which significant assets are generally depreciated or amortized:

	Years
Buildings	25
Leasehold improvements	3 to 20
Equipment	3 to 10
Software	3 to 7

Store Closings and Asset Impairment – The Company writes down property and equipment of stores it is closing to estimated net realizable value at the time management commits to a plan to close such stores and begins to actively market the store. If the stores are leased, the Company accrues for related future estimated rent and other expenses if the expenses are expected to exceed estimated sublease rental income. The Company adopted the provisions of SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities," effective January 1, 2003, and as a result, for leased stores, the Company accrues for related future estimated rent and other expenses at the time the store ceases operations if the expenses are expected to exceed estimated sublease rental income. Prior to 2003, the Company accrued for related future estimated rent and other expenses when it committed to a plan to close the stores. The Company bases the estimated net realizable value of property and equipment on its experience in utilizing and/or disposing of similar assets and on estimates provided by its own and/or third-party real estate experts. The Company also uses its experience in subleasing similar property to estimate future sublease income.

The results of operations of certain owned and leased stores are presented as discontinued operations in the accompanying consolidated statements of earnings in accordance with the provisions of SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," (see Note 6). The results of operations of owned stores are presented as discontinued operations beginning in the quarter in which management commits to a plan to close the related store and actively markets the store. The results of operations of a leased store are presented as discontinued operations beginning in the quarter in which the related store ceases operations. The results of operations include related writedowns of stores to estimated net realizable value and accruals for future estimated rent and other expenses in excess of estimated sublease rental income. The Company does not allocate interest expense to discontinued operations.

Notes to Consolidated Financial Statements

The Company's long-lived assets are reviewed for impairment and written down to fair value whenever events or changes in circumstances indicate that the carrying value may not be recoverable. In addition, the Company also conducts an annual impairment test of its goodwill and intangible assets with indefinite lives in accordance with the provisions of SFAS No. 142, "Goodwill and Other Intangible Assets" (see Note 7). The impairment test for goodwill is comprised of two steps. Step one compares the fair value of the reporting unit with its carrying amount, including goodwill. If the carrying amount exceeds the fair value, then goodwill is impaired and step two is required to measure the amount of impairment loss. Step two compares the implied fair value of the reporting unit's goodwill with the carrying amount of that goodwill. If the carrying amount is greater than the implied fair value of the goodwill, an impairment loss is recognized for the excess.

The impairment test for intangible assets with indefinite lives consists of a comparison of the fair value of the intangible asset with its carrying amount. Fair value is determined by calculating the present value of future estimated revenues. If the carrying amount of the intangible asset exceeds its fair value, an impairment loss is recognized for the excess.

Asset Retirement Obligations – The Company records an estimated liability for the future cost to remove an underground storage tank in accordance with the provisions of SFAS No. 143, "Asset Retirement Obligations," and recognizes the cost over the estimated useful life of the storage tank (see Note 9). A liability for the fair value of an asset retirement obligation with a corresponding increase to the carrying value of the related long-lived asset is recorded at the time an underground storage tank is installed. The Company amortizes the amount added to property and equipment and recognizes accretion expense in connection with the discounted liability over the estimated remaining life of the respective underground storage tank.

Equity-Based Compensation – The 1995 Stock Incentive Plan (the "Stock Incentive Plan") provides for the granting of stock options, stock appreciation rights, performance shares, restricted stock, restricted stock units, bonus stock and other forms of stock-based awards and authorizes the issuance of up to 11.2 million shares over a 10-year period to certain key employees and officers of the Company (see Note 16). As of December 31, 2004, 1.3 million shares were available for future issuance under the Stock Incentive Plan.

All options granted in 2002, 2003 and 2004 were granted at exercise prices that were equal to the fair market values on the date of grant. The options granted in 2002 and 2003 vest annually in five equal installments, and the options granted in 2004 vest annually in three equal installments, all beginning one year after the grant date. Vested options are exercisable within 10 years of the grant date.

The fair value of each option grant under the Stock Incentive Plan is estimated on the date of grant using the Black-Scholes option-pricing model. The following weighted-average assumptions were used for the options granted in the years ended December 31, 2002 and 2003, respectively: expected life of five years, no dividend yield, risk-free interest rates of 4.67% and 2.65% and expected volatility of 67.54% and 64.98%. For options granted in the year ended December 31, 2004, the following weighted-average assumptions were used: expected life of three years, no dividend yield, risk-free interest rate of 2.28%, and expected volatility of 46.30%.

In 2003, the Company's shareholders approved an amendment to the Stock Compensation Plan for Non-Employee Directors (the "Non-Employee Directors Plan"), which permits the issuance of stock options and restricted stock to the Company's independent directors (see Note 16). Under the amended Non-Employee Directors Plan, in May 2003 and May 2004, the Company granted stock options that were equal to the fair market values on the grant dates and restricted stock that may not be sold or transferred until after the director retires from the Board.

The Company has recognized no compensation expense for its stock options as it is currently accounting for both the Stock Incentive Plan and the Non-Employee Directors Plan under the provisions of Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees." If compensation expense had been determined based on the fair value at the grant date for awards under both these plans consistent with the method prescribed by SFAS No. 123, "Accounting for Stock-Based Compensation," the Company's net earnings and net earnings per common share would have been reduced to the pro forma amounts indicated in the following table:

Notes to Consolidated Financial Statements

Years Ended December 31	2002	2003	2004
(Dollars in thousands, except per-share data)	*Restated*	*Restated*	
Net earnings as reported	$11,635	$62,073	**$ 96,506**
Add: Stock-based compensation expense included in reported net earnings, net of tax	268	1,742	**4,747**
Less: Total stock-based compensation expense determined under the fair-value-based method for all stock-option awards, net of tax	(4,425)	(6,439)	**(11,698)**
Pro forma net earnings	$ 7,478	$57,376	**$ 89,555**
Net earnings per common share as reported			
Basic	$ .11	$ .58	**$ .86**
Diluted	.12	.57	**.81**
Pro forma net earnings per common share			
Basic	$ .07	$ .54	**$ .80**
Diluted	.09	.54	**.77**

Effective July 1, 2005, the Company will adopt the provisions of SFAS No. 123R, "Share-Based Payment," which was issued in December 2004, and will modify its accounting for stock options and other awards under its Stock Incentive Plan and its Non-Employee Directors Plan accordingly (see Note 20).

Insurance – The Company has established self-insurance and predetermined deductible/retention programs to cover certain insurable risks consisting primarily of physical loss to property, business interruption, workers' compensation and comprehensive general and automobile liability. Third-party insurance coverage above predetermined deductibles/retentions is obtained for property and liability exposures as well as those risks required to be insured by law or contract. Predetermined deductibles/retentions are generally $500,000 per occurrence for each type of coverage with the exception of property damage, which is $250,000 to $1.0 million per occurrence based on the type of loss. Provisions for losses expected under the Company's insurance programs are recorded based on independent actuarial estimates of the aggregate liabilities for claims incurred.

The Company has a variety of self-insured plans for employee healthcare. Projected equivalent rates and contributions for these self-insured plans are established annually by outside actuaries. The Company does not maintain stop-loss coverage. Total claims, including large claims, are monitored on an annual basis to determine the appropriateness of future stop-loss coverage.

Environmental – The Company accrues for the estimated future costs related to remediation activities at existing and previously operated gasoline storage sites and other operating and nonoperating properties where releases of regulated substances have been detected. Estimates of the anticipated future costs for remediation activities at such sites are based on the Company's prior experience with remediation sites and consideration of factors such as the condition of the site contamination, location of tank sites and experience with contractors that perform environmental assessment and remediation work. The reserve is determined on a site-by-site basis, and a liability is recorded for remediation activities when it is probable that corrective action will be taken and the cost of the remediation activities can be reasonably estimated.

A portion of the environmental expenditures incurred for remediation activities is eligible for reimbursement under state trust funds and reimbursement programs. These reimbursement claims represent a firm and legally enforceable basis to recover remediation costs from the various state programs. A receivable is recorded for estimated probable refunds when the related liability is recorded. The amount of the receivable is based on the Company's historical collection experience with the specific state fund (or other state funds), the financial status of the state fund and the Company's priority ranking for reimbursement from the state fund. The receivable is discounted for amounts relating to remediation activities already completed (see Note 15).

NOTE 2: STORES OPERATED BY FRANCHISEES

The results of operations of stores operated by franchisees are consolidated with the results of operations of Company-operated stores (see Note 1). Merchandise sales of stores operated by franchisees are $4.03 billion, $4.32 billion and $4.60 billion from 3,276, 3,338 and 3,422 stores for the years ended December 31, 2002, 2003 and 2004, respectively.

Notes to Consolidated Financial Statements

In early 2004, the Company began implementing a new franchise agreement to replace agreements that were at or nearing expiration (see Note 1). The new agreement revises the merchandise gross profit split between the Company and its franchisees (creating a 50/50 split between the Company and the franchisee) and provides for an advertising fee to be paid by the franchisee to the Company for certain advertising costs incurred by the Company. In addition, the new agreement includes a requirement that, of the franchisee's total purchases and cigarette purchases, a minimum percentage must be purchased from the Company's recommended vendors; otherwise, the 50/50 merchandise gross profit split may be adjusted. In the opinion of management, implementation of the new agreement has not had a material adverse effect on the Company's or the franchisees' results of operations. As of December 31, 2004, franchisees operating 3,251 stores, or approximately 95% of total franchised stores, had signed the new franchise agreement.

The Company's 50% share of the merchandise gross profit of franchise stores is its ongoing royalty, which is charged to the franchisee for the license to use the 7-Eleven operating system and trademarks, for the lease and use of the store premises and equipment, and for ongoing services provided by the Company. These services include financing, indemnification, bookkeeping, advertising, business counseling and other services. The Company also provides financing of a franchisee's merchandise inventory and other operating items, which is collateralized by the store inventory and the franchisee's receipts from store operations. The receipts are deposited in a bank account belonging to the Company. The franchisee's share of the merchandise gross profit is used by the franchisee to pay operating expenses of the franchisee's store. The Company includes the franchisee's share of gross profit in OSG&A expense in the accompanying consolidated statements of earnings. Approximately 95% of franchisees pay an advertising fee of 0.5% to 1.5% of gross profit, depending on the total gross profit of the store.

With regard to gasoline sales, the new franchise agreement, and in most instances, the old franchise agreements, require the Company to pay the franchisee one cent per gallon sold as compensation for measuring and reporting deliveries of gasoline, conducting pricing surveys of competitors, changing the price displays and cleaning the service areas. The Company has implemented a noncontractual policy under which it pays its franchisees the greater of (a) 1.5 cents per gallon or (b) up to 24% of the gasoline gross profit, depending on the term of the franchise agreement when the store was franchised. The Company can revise this policy at any time. These amounts are also included in OSG&A in the accompanying consolidated statements of earnings.

As a result of adopting the provisions of FIN 46 and FIN 46R, the Company changed the presentation of its franchise stores in its consolidated financial statements as of January 1, 2004. Consolidation of these stores resulted in an after-tax, one-time cumulative effect charge of $5.1 million (net of deferred tax benefit of $3.3 million). This resulted from a change in how the Company is required to recognize franchise fee income for franchise fees financed by the Company (see Note 1). FIN 46 and FIN 46R also require the Company's consolidated balance sheets to include, among other things, franchisees' merchandise inventory and minority interest, which represents the franchisees' equity in the franchised stores. The prior-year presentation of franchisees' assets and liabilities has been reclassified in the accompanying consolidated balance sheets to conform to the current-year presentation.

NOTE 3: ACCOUNTS RECEIVABLE

December 31	2003	2004
(Dollars in thousands)		
Trade accounts receivable	$ 84,981	**$110,081**
Vendor receivables	52,994	**42,133**
Environmental cost		
reimbursements – see Note 15	5,819	**4,344**
SEJ royalty receivable	1,772	**2,137**
Federal income tax receivable	4,012	**20,984**
Other accounts receivable	6,303	**10,771**
	155,881	**190,450**
Allowance for doubtful accounts	(2,387)	**(2,699)**
	$153,494	**$187,751**

NOTE 4: INVENTORIES

December 31	2003	2004
(Dollars in thousands)		
Merchandise	$243,895	**$251,088**
Gasoline	35,235	**34,975**
	$279,130	**$286,063**

Included in inventories in the accompanying consolidated balance sheets are amounts for franchisee-operated stores and stores in Canada, both of which are stated on a FIFO basis (see Note 1). Inventories stated on the LIFO basis that are included in inventories in the accompanying consolidated balance sheets were $42.9 million and $42.3 million for merchandise and $27.2 million and $26.4 million for gasoline at December 31, 2003 and 2004, respectively. These amounts are less than replacement cost by $39.0 million and

Notes to Consolidated Financial Statements

$39.9 million for merchandise and $13.0 million and $23.0 million for gasoline at December 31, 2003 and 2004, respectively.

For the years ended December 31, 2002, 2003 and 2004, certain inventory quantities were reduced resulting in a liquidation of LIFO inventory layers recorded at costs that were lower than the costs of current purchases. The effect of these reductions was a decrease in cost of goods sold of $754,000, $3.6 million and $1.4 million, respectively.

NOTE 5: OTHER CURRENT ASSETS

December 31	2003	2004
(Dollars in thousands)		
Prepaid expenses	$ 64,577	$ 73,340
Deferred tax assets – see Note 17	46,266	57,831
Advances for lottery and other tickets	29,062	37,801
Assets held for sale – see Note 6	13,325	6,269
Restricted cash – see Note 10	8,508	6,246
Other	1,109	847
	$162,847	$182,334

NOTE 6: PROPERTY AND EQUIPMENT

December 31	2003	2004
(Dollars in thousands)	*Restated*	
Cost		
Land	$ 561,475	$ 558,730
Buildings	509,814	429,454
Leasehold improvements	1,664,707	1,671,050
Equipment	1,513,597	1,607,546
Software (includes $63,052 and $53,834 of software development)	396,516	459,256
Construction in process	58,117	53,697
	4,704,226	4,779,733
Accumulated depreciation and amortization (includes $187,299 and $239,901 related to software)	(2,308,564)	(2,486,586)
	$ 2,395,662	$ 2,293,147

Stores that the Company has closed are accounted for as discontinued operations under the provisions of SFAS No. 144 (see Note 1). The stores presented as discontinued operations had total revenues of $264.8 million, $149.5 million and $43.7 million and pretax losses of $33.1 million, $21.2 million and $11.1 million for the years ended December 31, 2002, 2003 and 2004, respectively. Included in the loss on discontinued operations are losses on disposal of $13.9 million (net of tax benefit of $9.2 million), $6.2 million (net of tax benefit of $3.8 million) and $1.4 million (net of tax benefit of $0.8 million) for the years ended December 31, 2002, 2003 and 2004, respectively. The losses on disposal include write-downs of stores to net realizable value, anticipated future rent and other expenses in excess of related estimated sublease income as well as gains and losses on sales of stores. The carrying amounts of the remaining owned properties are included in other current assets in the accompanying consolidated balance sheets as assets held for sale (see Note 5). These properties are being actively marketed.

On April 22, 2004, the Company sold its headquarters building, parking garages and related facilities ("Cityplace") to an outside party for $124.0 million (see Note 10). The Company subsequently leased back the portion of the building and parking garages that it currently occupies for a term of three years with an option to extend for an additional seven years. The carrying amount of the property and equipment (and associated net rental amounts) that was sold was $104.7 million at the time of closing. The Company recorded a pretax gain of $17.5 million to deferred income, which is being amortized to income over the three-year life of the lease (see Notes 8 and 9).

NOTE 7: GOODWILL AND OTHER INTANGIBLE ASSETS

December 31	2003	2004
(Dollars in thousands)		
SEJ license royalty intangible	$ 89,420	$ 89,420
Other license royalty intangibles	15,836	15,836
Goodwill	30,244	65,946
Other intangibles	4,912	4,447
	$ 140,412	$175,649

In 2002, the Company adopted the provisions of SFAS No. 142, which addresses financial accounting and reporting for acquired goodwill and other intangible assets (see Note 1). The statement eliminates amortization of goodwill and intangible assets with indefinite lives and requires an annual impairment test thereafter and in certain circumstances. The Company completed the annual impairment tests of these assets as of September 30, 2003 and 2004, and there was no evidence of impairment in the tests. The impairment test will be conducted each year as of the end of the third quarter.

Notes to Consolidated Financial Statements

On August 16, 2004, the Company entered into a new agreement with a major financial services company. Under the terms of the agreement, the Company acquired the business that operates the ATM network currently deployed in its stores for a purchase price (including acquisition costs) of $44.7 million of cash consideration and the assumption of certain contractual lease commitments and other contracts related to the business.

The acquisition is being accounted for under the purchase method. The purchase price includes the acquisition of approximately 4,500 ATM machines (as well as approximately 1,000 warehoused units, the majority of which were sold by December 31, 2004) and the right to receive all future ATM transaction revenue generated through both these machines and the more than 1,000 Vcom® machines currently owned by the Company. During the fourth quarter, the Company finalized the purchase price allocation and, as a result of this analysis, recorded goodwill of $35.6 million representing the excess of purchase price over net assets acquired.

NOTE 8: ACCRUED EXPENSES AND OTHER LIABILITIES

December 31 *(Dollars in thousands)*	2003 *Restated*	2004
Insurance	$ 46,445	**$ 56,396**
Compensation	88,932	**97,803**
Taxes	95,236	**96,548**
Lotto, lottery and other tickets	56,527	**78,107**
Other accounts payable	82,443	**98,462**
Environmental costs – see Note 15	19,387	**22,441**
Profit sharing – see Note 14	15,537	**16,458**
Interest	14,284	**12,534**
Book overdrafts payable – see Note 1	68,434	**52,969**
Deferred income – see Notes 1 and 6	12,725	**17,078**
Other current liabilities	70,231	**97,381**
	$570,181	**$646,177**

The Company initiated cost reduction efforts in 2002 to streamline administrative functions and consolidate divisions, resulting in the elimination of approximately 125 positions. The results of operations for the year ended December 31, 2002, include a $5.6 million charge to OSG&A expense for severance costs. Included in compensation were $1.2 million and $584,000 relating to unpaid severance costs as of December 31, 2003 and 2004, respectively.

NOTE 9: DEFERRED CREDITS AND OTHER LIABILITIES

December 31 *(Dollars in thousands)*	2003 *Restated*	2004
Deferred income taxes	$150,526	**$178,036**
Underground gasoline storage tanks	54,325	**55,366**
Insurance	50,148	**53,671**
Post-employment benefits – see Note 14	46,906	**49,451**
Straight-line rent accrual	36,433	**41,624**
Deferred income – see Notes 1 and 6	39,321	**33,838**
Environmental costs - see Note 15	23,182	**19,184**
Other	19,923	**27,238**
	$420,764	**$458,408**

The estimated liability for the removal of underground gasoline storage tanks is based on the Company's historical experience in removing these tanks, estimated tank useful lives, external estimates as to the cost to remove the tanks in the future and federal and state regulatory requirements. The liability is discounted using credit-adjusted risk-free rates of approximately 8% and 7% for the years ended December 31, 2003 and 2004, respectively. Revisions to the liability could occur due to changes in tank removal costs or tank useful lives, or if federal or state regulators enact new requirements on the removal of such tanks.

Upon adoption of SFAS No. 143 in 2002, the Company recorded a discounted liability of $53.6 million, increased net property and equipment by $6.7 million and recognized a one-time cumulative effect charge of $28.1 million (net of deferred tax benefit of $18.8 million) (see Note 1). A reconciliation of the Company's liability for the removal of its underground gasoline storage tanks is as follows:

Years Ended December 31 *(Dollars in thousands)*	2003	2004
Beginning balance at January 1	$54,403	**$56,125**
Liabilities incurred	1,165	**2,322**
Liabilities settled	(3,110)	**(4,127)**
Accretion expense	3,219	**2,846**
Revisions to estimate	448	**—**
	$56,125	**$57,166**

Of the total liability recorded in the accompanying consolidated balance sheets as of December 31, 2003 and 2004, $54.3 million and $55.4 million, respectively, is included in deferred credits and other liabilities and the remainder is included in accrued expenses and other liabilities.

Notes to Consolidated Financial Statements

NOTE 10: DEBT

December 31 *(Dollars in thousands)*	2003	2004
Senior Subordinated Notes due to SEJ	$ 400,000	$ 400,000
Revolving Credit Facility	—	—
Commercial paper	318,633	267,250
Yen Loans	144,368	134,493
7 1/2% Cityplace Term Loan due 2005	207,886	—
Notes payable to senior lenders (see Note 13)	178,069	—
Capital lease obligations	224,537	222,994
Other	1,825	1,643
	1,475,318	1,026,380
Less: Senior Subordinated Notes due to SEJ	400,000	400,000
Current portion of commercial paper	—	51,400
Long-term debt due within one year	39,828	40,370
	$1,035,490	$ 534,610

Senior Subordinated Notes due to SEJ – In January 2003, the Company entered into a note purchase agreement with SEJ that authorized the issuance and sale of up to $400 million aggregate principal amount of Senior Subordinated Notes due 2010 ("SEJ Notes"), which were issued by the Company and purchased by SEJ in multiple tranches during 2003. The Company is required to repay the SEJ Notes in eight equal semiannual installments beginning July 2006 and ending January 2010, and interest payments on the unpaid balance of the SEJ Notes are required semiannually beginning January 2003. The SEJ Notes are subordinate to all obligations outstanding under the Company's Credit Agreement.

In January 2003, the Company received $100 million from SEJ under the note purchase agreement; the interest rate on this tranche is stated at 3.41%. In July 2003, the Company received the remaining $300 million from SEJ under the note purchase agreement in three equal payments of $100 million; the interest rate on these tranches is stated at 3.01%, 3.34% and 3.71%, respectively. The accompanying financial statements include interest payable of $5.8 million and $5.7 million on the SEJ Notes as of December 31, 2003 and 2004, respectively, as well as interest expense of $8.1 million and $13.5 million for the years ended December 31, 2003 and 2004, respectively.

In July 2003, the Company used a portion of the proceeds of the SEJ Notes to retire $239.3 million principal amount of its 5% First Priority Senior Subordinated Debentures, $111.4 million principal amount of its 4 1/2% Second Priority Senior Subordinated Debentures (Series A) and $18.5 million principal amount of its 4% Second Priority Senior Subordinated Debentures (Series B) (collectively, the "Debentures"). Primarily as a result of including interest under SFAS No. 15, "Accounting by Debtors and Creditors for Troubled Debt Restructuring" ("SFAS No. 15 Interest") in the carrying amount of the retired debt, the Company recognized a pretax gain of $10.5 million in 2003. The gain was recorded in OSG&A.

The Debentures, which were retired in July 2003, were accounted for in accordance with SFAS No. 15 and were recorded at an amount equal to the future undiscounted cash payments, both principal and SFAS No. 15 Interest. Accordingly, no interest expense was recognized over the life of these securities, and cash interest payments were charged against the recorded amount of such securities.

Revolving Credit Facility – On October 26, 2004, the Company entered into a $200 million unsecured revolving credit agreement ("Credit Agreement") with a group of lenders. The Company is permitted to use the entire revolving credit facility to support the issuance of letters of credit, or it may draw on the facility for general corporate purposes. The revolving facility expires in October 2009. The Company terminated the previously existing $200 million revolving credit facility when it executed the new Credit Agreement. As of December 31, 2004, outstanding letters of credit under the facility totaled $113.3 million, and there were no outstanding borrowings under the facility.

A facility fee is charged on the aggregate amount of the revolving credit facility determined by the Company's credit ratings for senior long-term indebtedness. As of December 31, 2004, the facility fee rate was 0.15% per year. Borrowings under the revolving credit facility bear interest at a variable rate equal to (i) the highest of (a) the base rate of Citibank, N.A., (b) 0.50% over the three-week moving average of secondary market morning offering rates in the U.S. for three-month certificates of deposit, and (c) 0.50% over the federal funds rate or, at the Company's option, (ii) at a rate equal to a reserve-adjusted Eurodollar rate plus a margin determined by the Company's credit ratings for senior long-term indebtedness. As of December 31, 2004, the one-month Eurodollar rate was 2.4% and the applicable margin rate was 0.475%. The applicable margin rate on borrowings and letters of credit was reduced by 0.25% under the new Credit Agreement.

The Credit Agreement contains various financial and operating covenants customary for facilities of this nature that require, among other things, the maintenance of certain financial ratios including interest and rent coverage and leverage ratios. The Company was in compliance with all of the financial and operating covenants in the

Notes to Consolidated Financial Statements

Credit Agreement as of December 31, 2004. In the event of default under these covenants, the unpaid principal of all amounts owed under the Credit Agreement could be declared immediately due and payable along with any and all accrued and unpaid interest. The obligations of the senior lenders to make loans or participate in our letter of credit facility also could be immediately terminated. In addition, upon demand by the administrative agent or certain other senior lenders, the Company could be required to deposit with the administrative agent cash or cash equivalents in an amount equal to the maximum amount available under the letter of credit facility plus additional amounts to cover certain costs.

The Credit Agreement also contains certain cross-default provisions. If the Company fails to make any payment due on indebtedness (excluding borrowings under the Company's commercial paper facility) or certain other specified potential obligations (if the amount due is $25 million or more), the Company could be in default under these provisions.

Commercial Paper – The availability of borrowings under the Company's commercial paper facility is $650 million. As of December 31, 2003 and 2004, $318.6 million and $215.9 million of the respective $318.6 million and $267.3 million outstanding principal amounts, net of discount, was classified as long-term debt since the Company intends to maintain at least these amounts outstanding during the next year. Such debt is unsecured and is fully and unconditionally guaranteed by IY. IY has agreed to continue through 2006 both the guarantee of all commercial paper issued and the waiver of its contractual right to receive from the Company a guarantee fee of 0.5% per year (accruing on a daily basis) on the face amount of commercial paper outstanding.

While it is not anticipated that IY would be required to perform under its commercial paper guarantee, in the event IY makes any payments under the guarantee, the Company and IY have entered into an agreement by which the Company is required to reimburse IY subject to certain restrictions in the Credit Agreement. The restrictions principally specify that no reimbursements can be made until one year after repayment in full of amounts outstanding under the Credit Agreement. The weighted-average interest rate was 1.1% and 2.3% on commercial paper borrowings outstanding at December 31, 2003 and 2004, respectively.

Yen Loans – The Company has monetized its future royalty payments from SEJ, its area licensee in Japan, through fixed-rate yen-denominated loans that are nonrecourse to the Company as to principal and interest. These loans, which are referred to as the "1998 Yen Loan" and the "2001 Yen Loan," are collateralized by the Japanese trademarks and a pledge of the future area license royalty payments from SEJ.

As of December 31, 2004, the principal balance on the 1998 Yen Loan was 3.8 billion yen or $36.8 million at the exchange rate in effect on that date (102.41). The 1998 Yen Loan has an interest rate of 2.3%, and principal and interest are paid semiannually from the SEJ area license royalty income. Based on current royalty income projections, the final payment will be made in 2006.

As of December 31, 2004, the principal balance on the 2001 Yen Loan was 10 billion yen or $97.7 million at the exchange rate in effect on that date (102.41). The 2001 Yen Loan has an interest rate of 1.8%, and principal and interest are payable from the SEJ area license royalty income. Semiannual principal payments commence April 2007, and semiannual interest payments began October 2002 in accordance with the loan agreement. Interest expense exceeds interest paid until commencement of principal payments in 2007, at which time interest paid will exceed interest expense. The excess interest is added to the principal balance and interest is accrued thereon. Based on current royalty income projections, the final payment will be made in 2011.

The 1998 Yen Loan and the 2001 Yen Loan were funded by entities formed by the lenders. The Company has no management control or equity interest in these entities. The Company's obligation to the entities is known (i.e., principal and interest payments as defined in the loan agreements), and the Company has no contingent obligations. The entities enable lenders to convert a portion of the Company's fixed-rate debt to variable-rate debt and to receive interest payments on a current basis.

The SEJ area license royalty is remitted monthly into a yen-denominated account for the benefit of the Company. Principal and interest payments on the 1998 and 2001 Yen Loans are made from this account semiannually in accordance with the loan agreements. After the semiannual principal and interest payments are made from this account, any excess amount, as defined by the loan agreements, is released to the Company for general-purpose use. The account held 351.3 million yen and 404.8 million yen or $3.3 million and $4.0 million at December 31, 2003 and 2004, respectively (see Note 5).

By using its SEJ royalty receipts to service the principal and interest payments on the yen loans, the Company has an economic hedge against fluctuations in the Japanese yen to U.S. dollar exchange rate. Although SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," nullified the hedge accounting treatment the Company was applying to the SEJ royalty and yen loans, the Company's economic hedge against changes in the Japanese yen to U.S. dollar exchange rate remains in place.

Notes to Consolidated Financial Statements

The Company adjusts the balance of the yen loans at each reporting date to reflect the current exchange rate between the Japanese yen and the U.S. dollar, and the resultant foreign currency conversion gain or loss is recognized in earnings. In addition, the Company records the SEJ royalty and interest expense on the yen loans at the average exchange rate between the Japanese yen and the U.S. dollar for the respective periods. The Company recorded \$(15.1) million, \$(14.0) million and \$6.1 million of net conversion gain (loss) in OSG&A from the adjustment of the yen loans to the exchange rate between the Japanese yen and the U.S. dollar for the years ended December 31, 2002, 2003 and 2004, respectively.

Cityplace Term Loan – In April 2004, Cityplace Center East LP ("CCELP"), a Texas limited partnership in which the Company is the general partner, sold the headquarters building, parking garages and related facilities of the Cityplace Center development to an outside party (see Note 6). The Company was leasing the building from Cityplace Center East Corporation ("CCEC," predecessor in interest to CCELP), occupying part of the building as its corporate headquarters and subleasing the balance to third parties. CCEC had constructed the development and was obligated to UFJ Bank Limited, New York Branch ("UFJ"), which had a lien on the property financed (the "Cityplace Term Loan"). The Cityplace Term Loan had monthly payments of principal and interest based on a 25-year amortization at 7.5%, with the remaining principal of \$199.3 million due on March 1, 2005. CCEC was paying UFJ an amount that was equal to the Company's rental payments on the property.

Concurrent with the Cityplace sale closing, the Company retired the Cityplace Term Loan using a combination of sale proceeds and available corporate funds. The total retirement of the Cityplace Term Loan was \$214.1 million, which was comprised of the outstanding loan balance and accrued interest as well as fees of \$7.5 million associated with prepayment of the loan. The fees resulting from prepayment of the loan were charged to OSG&A expense in the consolidated statement of earnings. Under the terms of the Cityplace Term Loan, the Company was required to maintain cash reserves of \$15 million.

Notes Payable to Senior Lenders – In October 2004, the Company terminated the trusts that had provided financing in 1999 and 2001 for certain of its lease facilities (see Notes 1 and 13). Using available corporate funds, the Company paid \$175.6 million to the trusts' senior lenders to retire the loans and \$12.7 million to the noncontrolling interests of the trusts as a return on investment. The termination of the lease facilities resulted in a pretax charge of \$1.2 million to the consolidated statements of earnings in the fourth quarter of 2004. The charge represents the recognition of the remaining deferred loan costs as well as miscellaneous expenses associated with the closing. With the termination of the lease facilities, title to all assets previously owned by the trusts was transferred to the Company.

As required by FIN 46, the Company had consolidated the assets, liabilities, non-controlling interests and results of activities of these trusts into its consolidated financial statements effective July 1, 2003. As a result of this consolidation, the accompanying consolidated balance sheets of the Company include \$178.1 million in notes payable to senior lenders as of December 31, 2003. Interest on the notes was paid monthly at interest rates of LIBOR plus 2.1% for the note related to the 1999 lease facility and LIBOR plus 1.1% for the note related to the 2001 lease facility. The notes were collateralized by the assets of the trusts, which principally consisted of store properties.

Maturities – Long-term debt maturities assume the continuance of the commercial paper program and the IY guarantee. The maturities, which include capital lease obligations, are as follows (dollars in thousands):

2005	\$ 91,770
2006	96,502
2007	140,046
2008	133,744
2009	134,174
Thereafter	430,144
	\$1,026,380

NOTE 11: CONVERTIBLE QUARTERLY INCOME DEBT SECURITIES

In November 1995, the Company issued \$300 million principal amount of Convertible Quarterly Income Debt Securities due 2010 ("1995 QUIDS") to IY and SEJ. The 1995 QUIDS have no amortization, and interest of 4.5% is payable quarterly. The Company has the right to defer interest payments at any time for up to 20 consecutive quarters. The holder of the 1995 QUIDS can convert the debt anytime at a rate of \$20.80 per share of the Company's common stock. The conversion rate represents a premium to the market value of the Company's common stock at the time of issuance of the 1995 QUIDS. On February 28, 2005, IY transferred to SEJ its ownership of the 1995 QUIDS (see Note 21).

In February 1998, the Company issued \$80 million principal amount of Convertible Quarterly Income Debt Securities due 2013 ("1998 QUIDS") to IY and SEJ. The 1998 QUIDS had no amortization,

Notes to Consolidated Financial Statements

and interest of 4.5% was payable quarterly. Under the terms of the agreement, all of the outstanding 1998 QUIDS were converted into 6,501,685 shares of 7-Eleven, Inc. common stock at the conversion price of $12.3045 per share in September 2003.

The accompanying financial statements include interest payable of $600,000 as of December 31, 2003 and 2004, as well as interest expense of $17.4 million, $16.3 million and $13.7 million for the years ended December 31, 2002, 2003 and 2004, related to the 1995 QUIDS and the 1998 QUIDS. As of December 31, 2004, the Company had not deferred any interest payments in connection with the 1995 QUIDS.

NOTE 12: FINANCIAL INSTRUMENTS

Fair Value – The disclosure of the estimated fair value of financial instruments has been determined by the Company using available market information and appropriate valuation methodologies as indicated below.

The carrying amounts of cash and cash equivalents, trade accounts receivable, trade accounts payable and accrued expenses and other liabilities are reasonable estimates of their fair values. Letters of credit are included in the estimated fair value of accrued expenses and other liabilities.

The carrying amounts and estimated fair values of other financial instruments are listed in the following table:

December 31	2003		2004	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
(Dollars in thousands)				
Commercial paper	$318,633	$318,633	**$267,250**	**$267,250**
Senior Subordinated Notes due to SEJ	400,000	—	**400,000**	—
Yen Loans	144,368	144,423	**134,493**	**134,626**
Cityplace Term Loan	207,886	212,666	—	—
Notes payable to senior lenders (see Note 10)	178,069	178,069	—	—
Convertible quarterly income debt securities	300,000	—	**300,000**	—
Interest rate swap	3,109	3,109	—	—

The methods and assumptions used in estimating the fair value for each of the classes of financial instruments presented in the table above are as follows:

- Commercial paper borrowings are sold at market interest rates and have an average remaining maturity of less than 35 days and 17 days in 2003 and 2004, respectively. Therefore, the carrying amount of commercial paper is a reasonable estimate of its fair value. The guarantee of the commercial paper by IY is an integral part of the estimated fair value of the commercial paper borrowings.
- It is not practicable, without incurring excessive costs, to estimate the fair value of the Senior Subordinated Notes due to SEJ. As a result of the Company's relationship with SEJ, the Company was able to obtain financing with a weighted-average interest rate of 3.4%.
- The fair value of the Yen Loans is estimated by calculating the present value of the future yen cash flows at current interest and exchange rates.
- The fair value of the Cityplace Term Loan as of December 31, 2003, was estimated by calculating the present value of the future cash flows at a current interest rate for a similar financial instrument. The Cityplace Term Loan was repaid in April 2004 (see Note 10).
- The carrying amount of the notes payable to senior lenders as of December 31, 2003, was a reasonable estimate of its fair value as the associated interest rates were at current market rates. The notes payable to senior lenders were repaid in October 2004 (see Note 10).
- It is not practicable, without incurring excessive costs, to estimate the fair value of the convertible quarterly income debt securities (see Note 11). The fair value would be the sum of the fair values assigned to both an interest rate and an equity component of the debt by a valuation firm.
- The fair value of the interest rate swap was estimated based on discounted cash flows for the term of the swap using forward three-month LIBOR rates as of December 31, 2003, and represented the estimated amount the Company would have paid if the Company had chosen to terminate the swap as of December 31, 2003. The interest rate swap expired in February 2004.

Notes to Consolidated Financial Statements

Derivatives – From time to time, the Company uses derivative financial instruments to reduce its exposure to market risk resulting from fluctuations in interest rates. The Company was party to a \$250 million notional principal amount interest rate swap agreement that expired in February 2004. During the term of the agreement, the Company paid a fixed interest rate of 6.096% on the \$250 million notional amount, and a major financial institution, as counterparty to the agreement, paid the Company interest at a floating rate based on three-month LIBOR on the notional amount. Interest payments were made quarterly on a net settlement basis. The interest rate swap was accounted for as a hedge and, accordingly, any difference between amounts paid and received was recorded as interest expense. The impact on net interest expense as a result of this agreement was an increase of \$10.9 million, \$12.3 million and \$1.3 million for the years ended December 31, 2002, 2003 and 2004, respectively.

Under SFAS No. 133, the \$250 million interest rate swap was treated as a cash flow hedge of the Company's interest rate exposure in connection with its commercial paper program. The Company adjusted the carrying value of the interest rate swap to fair value at each reporting date with a corresponding offset to accumulated other comprehensive earnings. Additionally, the Company reviewed the effectiveness of the interest rate swap at each reporting date and recognized the ineffective portion of the interest rate swap in earnings for the period reported. The Company recognized a charge of \$440,000 and a credit of \$480,000 to interest expense in connection with ineffectiveness for the years ended December 31, 2002 and 2003, respectively. There was no ineffectiveness effect for the year ended December 31, 2004.

NOTE 13: LEASES

Leases – Certain property and equipment used in the Company's business is leased. Generally, real estate leases are for primary terms from 10 to 20 years with options to renew for additional periods, and equipment leases are for terms from three to 10 years.

In October 2004, the Company terminated certain lease facilities that had provided financing in 1999 and 2001. The financings had been used to construct new stores and acquire operating convenience stores from third parties not affiliated with the Company (see Notes 1 and 10). After a store was constructed or acquired, the trusts leased the store to the Company for an amount equal to the interest expense on the applicable store's construction costs or, in the case of operating convenience stores, the acquisition price of the land, building, motor fuels equipment and other fixtures. The applicable interest rates were LIBOR plus 2.1% for the 1999 facility and LIBOR plus 1.1% for the 2001 facility. The base lease terms under these facilities were set to expire in February 2005 and July 2006, respectively.

The accompanying consolidated financial statements as of December 31, 2003, include the assets, liabilities, non-controlling interests and results of activities of these trusts, which were consolidated by the Company effective July 1, 2003, as required by FIN 46 (see Notes 1 and 10). Consolidation of these trusts into the Company's financial statements resulted in an after-tax, one-time cumulative effect charge of \$10.2 million (net of deferred tax benefit of \$6.6 million). As of July 1, 2003, the Company also recorded \$178.1 million in notes payable to senior lenders, \$157.4 million (net of accumulated depreciation of \$16.3 million) in property and equipment and \$10.5 million of other net assets as a result of consolidating the trusts into its financial statements. The Company paid \$6.4 million and \$2.8 million in rent expense to the trusts in 2002 and 2003, respectively, before the trusts were consolidated into the Company's financial statements effective July 1, 2003. After the trusts were consolidated, such rent expense was classified as interest expense in the Company's financial statements until the trusts were dissolved in October 2004. Accordingly, the Company paid \$2.7 million and \$4.4 million in interest expense to the trusts' senior lenders under the terms of the agreements in 2003 and 2004, respectively.

Effective November 2002, the Company entered into a lease facility with a third-party institution that provided the Company with \$43.2 million in financing for VCOM® equipment. The leases are being accounted for as capital leases having a five-year lease term from the date of funding, which occurred on a monthly basis from December 2002 through June 2003. The leases bear interest at LIBOR plus 1.25%. Upon lease termination, whether prior to or at expiration of the five-year lease term, the Company is obligated to pay the lessor an amount equal to the original cost of the equipment financed less amortization to date plus accrued interest. The Company has recorded \$39.1 million and \$33.9 million in capital lease liabilities related to VCOM® equipment as of December 31, 2003 and 2004, respectively.

Notes to Consolidated Financial Statements

The composition of capital leases reflected as property and equipment in the consolidated balance sheets is as follows:

December 31	2003	2004
(Dollars in thousands)		
Buildings	$ 219,185	**$ 221,971**
Equipment	44,736	**48,205**
Software	40,813	**40,813**
	304,734	**310,989**
Accumulated amortization	(110,938)	**(133,105)**
	$ 193,796	**$ 177,884**

The present value of future minimum lease payments for capital lease obligations is reflected in the consolidated balance sheets as long-term debt. The amount representing imputed interest necessary to reduce net minimum lease payments to present value has been calculated generally at the Company's incremental borrowing rate at the inception of each lease.

Future minimum lease payments for years ending December 31 are as follows:

	Capital Leases	Operating Leases
(Dollars in thousands)		
2005	$ 41,841	$ 205,291
2006	39,443	184,969
2007	35,621	153,969
2008	29,003	126,073
2009	27,404	106,179
Thereafter	179,583	646,303
Future minimum lease payments	352,895	$1,422,784
Estimated executory costs	(61)	
Amount representing imputed interest	(129,840)	
Present value of future minimum lease payments	$ 222,994	

Minimum lease payments are calculated in accordance with SFAS No. 13, as amended. The minimum lease payments include any base rent plus step increases and escalation clauses, any guarantee of residual value by the Company and any payments for failure to renew the lease. In the event the base rent is dependent upon an index or rate that can change over the term of the lease, the minimum lease payments are calculated using the rate or index in effect at the inception of the lease. Minimum lease payments do not include executory costs such as insurance, maintenance and taxes. Minimum lease payments for operating leases are recognized on a straight-line basis over the term of the lease.

Minimum noncancelable sublease rental income to be received in the future, which is not included above as an offset to future payments, totals $6.1 million for capital leases and $5.0 million for operating leases as of December 31, 2004.

Rent expense on operating leases for the years ended December 31, 2002, 2003 and 2004, totaled $223.4 million, $236.6 million and $249.3 million, respectively, including contingent rent expense of $12.9 million, $13.0 million and $13.1 million, which has been reduced by sublease rent income of $3.6 million in each of the three years. Contingent rent expense on capital leases was $1.5 million for each of the years ended December 31, 2002 and 2003, and was $1.6 million for the year ended December 31, 2004. Contingent rent expense is generally based on sales levels or changes in the Consumer Price Index.

Leases with the Savings and Profit Sharing Plan – At December 31, 2004, the 7-Eleven, Inc. Employees' Savings and Profit Sharing Plan ("Savings and Profit Sharing Plan") owned one store that was leased to the Company under a capital lease and 389 stores that were leased to the Company under operating leases at rentals which, in the opinion of management, approximated market rates at the inception date of each lease. In addition, in 2002, 2003 and 2004, there were 44, 12 and 18 leases, respectively, that either expired or, as a result of properties that were sold by the Savings and Profit Sharing Plan to third parties, were canceled or assigned to the new owner. Also, the Company exercised its right of first refusal and purchased 10, one and one properties from the Savings and Profit Sharing Plan in 2002, 2003 and 2004, respectively, for an aggregate purchase price of $3.4 million, $340,000 and $450,000 in the respective years.

Rent expense under operating leases and amortization of capital lease assets were $16.2 million, $15.3 million and $15.0 million for the years ended December 31, 2002, 2003 and 2004, respectively, for leases with the Savings and Profit Sharing Plan.

NOTE 14: BENEFIT PLANS

Profit Sharing Plans – The Company maintains the Savings and Profit Sharing Plan for its U.S. employees and the 7-Eleven Canada, Inc. Pension Plan for its Canadian employees. These plans provide retirement benefits to eligible employees.

Notes to Consolidated Financial Statements

Contributions to the Savings and Profit Sharing Plan, a 401(k) defined contribution plan, are made by both the participants and 7-Eleven. 7-Eleven contributes to the Savings and Profit Sharing Plan an amount determined at the discretion of the Company. The contribution by the Company is generally allocated to the participants on the basis of their individual contribution and years of participation in the Savings and Profit Sharing Plan. The provisions of the 7-Eleven Canada, Inc. Pension Plan are similar to those of the Savings and Profit Sharing Plan. Total contributions to these plans for the years ended December 31, 2002, 2003 and 2004, were $13.5 million, $15.1 million and $15.6 million, respectively, and are included in OSG&A.

Postretirement Benefits – The Company's group insurance plan (the "Insurance Plan"), which was amended in January 2003 to provide for certain changes to eligibility requirements, provides postretirement medical and dental benefits for all retirees that meet certain criteria. Such criteria include at least 10 years of continuous service to the Company immediately prior to retirement, including at least the last 12 months of continuous participation in the Insurance Plan, and the sum of age plus years of continuous service equal to at least 65. The Company contributes toward the cost of the Insurance Plan a fixed dollar amount per retiree based on age and number of dependents covered. All other future costs and cost increases are paid by the retirees. The Company continues to fund its cost on a cash basis; therefore, no plan assets have been accumulated.

Pursuant to the Company's policy, if cumulative unrecognized gains or losses at the beginning of a period exceed 40% of the accumulated postretirement benefit obligation, the entire unrecognized gain or loss is amortized over a three-year period beginning in the subsequent year. The Company believes this method of amortization results in a more accurate reflection of its postretirement benefit obligation by providing for more immediate recognition of gains and losses. If cumulative unrecognized gains or losses at the beginning of a period are between 10% and 40% of the accumulated postretirement benefit obligation, the unrecognized gain or loss is amortized over the expected years of future service. If the percentage is less than 10%, there is no amortization.

The following information on the Company's Insurance Plan is provided:

December 31	2003	2004
(Dollars in thousands)		
Change in Benefit Obligation		
Net benefit obligation at beginning of year	$ 22,565	$ 20,937
Service cost	884	786
Interest cost	1,539	1,321
Plan participants' contributions	4,169	5,243
Actuarial gain	(1,928)	(2,427)
Gross benefits paid	(6,292)	(7,070)
Net benefit obligation at end of year	$ 20,937	$ 18,790
Change in Plan Assets		
Fair value of plan assets at beginning of year	$ —	$ —
Employer contributions	2,123	1,827
Plan participants' contributions	4,169	5,243
Gross benefits paid	(6,292)	(7,070)
Fair value of plan assets at end of year	$ —	$ —
Funded status at end of year	$(20,937)	$(18,790)
Unrecognized net actuarial gain	(4,037)	(6,313)
Unrecognized prior service cost	2,525	2,138
Accrued benefit costs	$(22,449)	$(22,965)

Notes to Consolidated Financial Statements

Years Ended December 31	2002	2003	2004
(Dollars in thousands)			
Components of Net Periodic Benefit Cost			
Service cost	$ 694	$ 884	**$ 786**
Interest cost	1,566	1,539	**1,321**
Prior service cost	—	387	**387**
Amortization of actuarial gain	(2,829)	(2,829)	**(150)**
Net periodic benefit cost	$ (569)	$ (19)	**$2,344**
End-of-Year Assumptions Used			
Discount rate	6.75%	6.25%	**6.00%**
Healthcare cost trend on covered charges			
2003 trend	13.00%	N/A	**N/A**
2004 trend	12.00%	12.00%	**N/A**
2005 trend	11.00%	11.00%	**11.00%**
Ultimate trend	6.00%	6.00%	**6.00%**
Ultimate trend reached in	2010	2010	**2010**

	Gross Payments	Employer Payments
(Dollars in thousands)		
Estimated Future Benefit Payments		
2005	$ 8,156	$ 972
2006	9,365	1,094
2007	11,095	1,195
2008	12,751	1,265
2009	14,649	1,354
Years 2010-2014	102,658	7,886

There is no effect of a one-percentage-point increase or decrease in assumed healthcare cost trend rates on either the total service and interest cost components or the postretirement benefit obligation for the years ended December 31, 2002, 2003 and 2004, as the Company contributes a fixed dollar amount.

Executive Protection Plan – The Company maintains the Executive Protection Plan ("EPP"), which is a supplementary benefit plan, for certain key employees of the Company. In addition to the disability and life insurance coverage available to all full-time employees of the Company, the EPP participants are eligible for supplemental disability benefits and life insurance coverage before they retire. After they retire, they are eligible for the postretirement income benefits of the EPP. No EPP assets have been accumulated as the Company funds its costs on a cash basis. The following information on the Company's EPP is provided:

Notes to Consolidated Financial Statements

December 31 *(Dollars in thousands)*	2003	2004
Change in Benefit Obligation		
Net benefit obligation at beginning of year	$ 18,275	$ 20,394
Service cost	798	846
Interest cost	1,253	1,288
Actuarial loss	1,021	794
Gross benefits paid	(953)	(866)
Net benefit obligation at end of year	$ 20,394	$ 22,456
Change in Plan Assets		
Fair value of plan assets at beginning of year	$ —	$ —
Employer contributions	953	866
Gross benefits paid	(953)	(866)
Fair value of plan assets at end of year	$ —	$ —
Funded status at end of year	$(20,394)	$(22,456)
Unrecognized net actuarial loss	3,426	4,091
Unrecognized prior service cost	3,537	3,072
Net amount recognized at end of year	$(13,431)	$(15,293)
Amounts recognized in statement of financial position:		
Accrued benefit liability	$(13,431)	$(15,293)
Additional minimum liability	(3,937)	(4,056)
Intangible asset	3,537	3,072
Accumulated other comprehensive earnings	400	984
Net amount recognized	$(13,431)	$(15,293)
Accumulated Benefit Obligation (ABO)	$(17,368)	$(19,349)

Years Ended December 31 *(Dollars in thousands)*	2002	2003	2004
Components of Net Periodic Benefit Cost			
Service cost	$ 513	$ 798	$ 846
Interest cost	993	1,253	1,288
Amortization of prior service cost	465	465	465
Amortization of actuarial (gain) loss	—	58	92
Net periodic benefit cost	$1,971	$2,574	$ 2,691
End-of-Year Assumptions Used			
Discount rate	7.00%	6.25%	6.00%
Rate of compensation increase	6.00%	5.00%	5.00%

NOTE 15: COMMITMENTS AND CONTINGENCIES

Distribution Services – The Company has a service agreement with McLane Company, Inc. ("McLane") under which McLane provides its distribution services to 7-ELEVEN® stores and designated combined distribution centers in the United States. Under the terms of the agreement, which expires in January 2006, the Company's corporate stores are required to purchase a minimum percentage of eligible purchases from McLane. The Company has met the required minimum percentages each year and expects to meet the required minimum percentages in 2005.

Notes to Consolidated Financial Statements

Gasoline Supply – The Company has a product purchase agreement with CITGO Petroleum Corporation ("CITGO") to buy specified quantities of gasoline at market prices. The agreement expires September 2006. The market prices are determined pursuant to a formula based on the prices posted by gasoline wholesalers in the various market areas where the Company purchases gasoline from CITGO. Minimum required annual purchases under this agreement are generally the lesser of 750 million gallons or 35% of gasoline purchased by the Company for retail sale. The Company has met the minimum required annual purchases each year and expects to meet the minimum required annual purchase levels in 2005.

Information Technology – In January 2002, the Company entered into a seven-year contract with an information technology service provider. The Company is required to purchase a minimum of $25 million of services annually. In addition, the Company has other information technology service provider contracts whereby it is required to purchase a minimum of approximately $54 million of services in 2005, $25 million in 2006 and approximately $31 million over the subsequent three-year period. The Company has historically exceeded these thresholds for information technology expenditures and expects to fully utilize the required minimum level of services in the future.

Product Commitments – The Company has various contracts for product purchases that require it to purchase a minimum amount of products annually. The Company has generally exceeded such minimum requirements in the past and expects to continue doing so for the foreseeable future. Failure to satisfy the minimum purchase requirements could result in termination of the contracts, changes in pricing of the products and payments to the applicable provider(s) of a predetermined percentage of the commitment(s).

Environmental – The Company accrues for the anticipated future costs and the related probable state reimbursement amounts for remediation activities at its existing and previously operated gasoline storage sites where releases of regulated substances have been detected. At December 31, 2003 and 2004, the Company's estimated undiscounted liability for these sites was $38.5 million and $37.7 million, respectively, of which $19.7 million and $15.8 million are included in deferred credits and other liabilities and the remainder is included in accrued expenses and other liabilities (see Notes 8 and 9). The Company anticipates that substantially all of the future remediation costs for detected releases at these sites as of December 31, 2004, will be incurred within the next five or six years.

Under state reimbursement programs, the Company is eligible to receive reimbursement for a portion of future remediation costs, as well as a portion of remediation costs previously paid. The reimbursement claims represent a firm and legally enforceable basis to recover remediation costs from the various state programs. Accordingly, at December 31, 2003 and 2004, the Company has recorded net receivable amounts of $51.7 million and $50.5 million, respectively, for the estimated probable state reimbursements, of which $28.0 million and $30.7 million relate to remediation costs incurred in the state of California. Of the total receivables, $46.2 million and $46.5 million are included in other assets, and the remainder is included in accounts receivable (see Note 3). In assessing the probability of state reimbursements, the Company takes into consideration each state's fund balance, revenue sources, existing claim backlog, status of cleanup activity and claim ranking. As a result of these assessments, the recorded receivable amounts in other assets are net of allowances of $11.4 million and $11.8 million as of December 31, 2003 and 2004, respectively.

While there is no assurance of the timing of the receipt of state reimbursement funds, based on the Company's experience, the Company expects to receive the majority of state reimbursement funds, except from California, within one to three years after payment of eligible remediation expenses, assuming that the state administrative procedures for processing such reimbursements follow historic payment practices. The Company estimates that it will receive reimbursement of most of its identified remediation expenses in California, although it may take additional years to receive those reimbursement funds. The California reimbursement program separates claims into four classes: A, B, C and D. The Company's claims are in Class D. In 2003, as a result of the growing backlog of Class D claims, the Company recorded a $7.0 million charge to OSG&A to reflect its best estimate of the fair value of its California remediation receivable at that time. Upon passage of California AB 1906 in 2004, which increased the expected funding of the state's reimbursement programs, the Company revised its estimate of when it would receive funds from California. As a result of this analysis, the Company recorded a $2.0 million increase in its net receivable from California for the year ended December 31, 2004.

As a result of the expected timing for the receipt of reimbursement funds from California, the portion of the recorded California receivable relating to remediation activities already completed has been discounted at approximately 5.0% and 4.9% as of December 31,

Notes to Consolidated Financial Statements

2003 and 2004, respectively, to reflect present values. Thus, the December 31, 2003 and 2004, recorded receivable amounts are also net of present value discounts of $19.2 million and $19.4 million, respectively.

The Company has recognized remediation expenses of $23.7 million, $27.6 million (which includes the $7.0 million charge noted above related to the California receivable) and $21.6 million, offset by estimated recoveries of $11.5 million, $4.9 million and $4.8 million, for the years ended December 31, 2002, 2003 and 2004, respectively. Such expenses are reflected in OSG&A expense in the accompanying consolidated statements of earnings. The estimated future remediation expenditures and related state reimbursement amounts could change within the near future as governmental requirements and state reimbursement programs continue to be revised. Such revisions could have a material impact on the Company's operations and financial position.

Litigation and Tax Assessments – The Company is a party to various claims and matters of litigation and tax assessments incidental to the normal course of its business. Management believes that the final resolution of these matters will not have a material adverse effect on the Company's financial position, results of operations or cash flows.

Other – Effective January 1, 2003, the Company has guaranteed $3.7 million of a five-year, $15 million note between the Company's equity affiliate in Mexico and a third-party lending institution. The affiliate obtained the loan for the purpose of restructuring existing debt. The guaranteed amount is the maximum potential amount that the Company could be required to pay in the event of default by its affiliate.

The Company has contracts with certain of its combined distribution center operators that require it to process a certain level of products through the facilities. If the Company fails to do so, it must pay the applicable operator a predetermined fee. The Company estimates that it will pay approximately $7.0 million in such fees over the next three years. For the years ended December 31, 2002, 2003 and 2004, the Company paid $897,000, $3.8 million and $3.7 million, respectively. Such amounts are reflected in merchandise cost of goods sold.

NOTE 16: PREFERRED STOCK AND STOCK PLANS

Preferred Stock – The Company has 5 million shares of preferred stock authorized for issuance. Any preferred stock issued will have such rights, powers and preferences as determined by the Company's Board of Directors.

Stock Incentive Plan – The Stock Incentive Plan provides for the granting of other forms of stock-based awards to certain key employees and officers of the Company. The Company granted 140,000 shares, 10,000 shares and 45,000 shares of restricted stock under the Stock Incentive Plan in 2002, 2003 and 2004, respectively. Upon issuance of the restricted stock, $115,000 and $1.0 million in unearned compensation equivalent to the market value at the date of grant was charged to shareholders' equity in the accompanying consolidated balance sheets as of December 31, 2003 and 2004, respectively. The amounts are being amortized to expense over a four-year vesting period. The Company recognized expense of $2.1 million and $7.0 million related to performance shares for the years ended December 31, 2003 and 2004, respectively.

Stock Compensation Plan for Non-Employee Directors – Under the Company's Non-Employee Directors Plan (see Note 1), up to an aggregate of 240,000 shares of the Company's common stock is authorized to be issued to its non-employee directors. Eligible directors may elect to receive all, none or a portion of their directors' fees in shares of the Company's common stock. During 2002, 2003 and 2004, respectively, 22,637, 34,005 and 22,349 shares were issued under the Non-Employee Directors Plan. Of the total shares issued under this plan in 2002, 2003 and 2004, 4,960, 26,634 and 19,436 shares, respectively, were restricted until the first of the month following the date of the director's retirement from the board. Also under the Non-Employee Directors Plan, 24,000 and 30,000 stock options at exercise prices of $9.30 and $16.10 per share were issued in May 2003 and 2004, respectively. The exercise prices represent the fair market value of the Company's common stock on the dates of grant.

A combined summary of the status of the Stock Incentive Plan and the Non-Employee Directors Plan as of December 31, 2002, 2003 and 2004, and changes during the years then ended, is presented below:

Notes to Consolidated Financial Statements

Fixed Options	2002 Shares (000's)	2002 Weighted-Average Exercise Price	2003 Shares (000's)	2003 Weighted-Average Exercise Price	2004 Shares (000's)	2004 Weighted-Average Exercise Price
Outstanding at beginning of year	5,524	$14.32	6,568	$13.22	**7,292**	**$12.19**
Granted	1,449	9.16	1,498	6.88	**1,418**	**16.64**
Exercised	(5)	9.46	(301)	10.14	**(1,846)**	**13.63**
Forfeited	(400)	13.78	(473)	10.88	**(121)**	**10.83**
Outstanding at end of year	6,568	13.22	7,292	12.19	**6,743**	**12.68**
Options exercisable at year-end	3,300	14.07	3,763	14.11	**3,395**	**13.82**
Weighted-average grant-date fair value of options granted during the year	$ 5.50		$ 3.87		**$ 5.50**	

Range of Exercise Prices	Options Outstanding: Options Outstanding at 12/31/04 (000's)	Options Outstanding: Weighted-Average Remaining Contractual Life	Options Outstanding: Weighted-Average Exercise Price	Options Exercisable: Options Exercisable at 12/31/04 (000's)	Options Exercisable: Weighted-Average Exercise Price
$ 6.88 – $ 9.36	2,418	7.84	$ 7.90	607	$ 8.33
9.36 – 14.04	1,372	5.13	10.41	1,200	10.35
14.04 – 18.72	1,487	8.11	16.12	208	15.50
18.72 – 23.40	1,466	5.57	19.24	1,380	19.00
6.88 – 23.40	6,743			3,395	

Stock Purchase Plans – The Company has noncompensatory stock purchase plans that allow qualified employees and franchisees to acquire shares of the Company's common stock at market value on the open market. The Company is responsible for the payment of all administrative fees for establishing and maintaining the stock purchase plans as well as the payment of all brokerage commissions for the purchase of shares by the plans' independent administrator. The employee plan has a matching-contribution component equal to 10% of the individual's common stock purchases for the year with certain restrictions applying. The Company's matching contribution was $73,000, $64,000 and $62,000 for the years ended December 31, 2002, 2003 and 2004, respectively.

NOTE 17: INCOME TAXES

The components of earnings from continuing operations before income tax expense and cumulative effect of accounting change are as follows:

Years Ended December 31	2002	2003	2004
(Dollars in thousands)	*Restated*	*Restated*	
Domestic (including royalties of $67,246, $47,308 and $51,757 from area license agreements in foreign countries)	$90,514	$130,270	**$168,522**
Foreign	8,871	7,598	**3,993**
	$99,385	$137,868	**$172,515**

Notes to Consolidated Financial Statements

The provision for income tax expense on earnings from continuing operations before cumulative effect of accounting change in the accompanying consolidated statements of earnings consists of the following:

Years Ended December 31 *(Dollars in thousands)*	2002 *Restated*	2003 *Restated*	2004
Current			
Federal	$ 6,362	$18,076	$41,595
Foreign	10,979	6,857	6,321
State	3,000	3,300	7,200
Subtotal	20,341	28,233	55,116
Deferred	19,413	24,157	8,902
Income tax expense on earnings from continuing operations before cumulative effect of accounting change	$39,754	$52,390	$64,018

Reconciliations of income tax expense on earnings from continuing operations before cumulative effect of accounting change at the federal statutory rate to the Company's actual income tax expense provided are as follows:

Years Ended December 31 *(Dollars in thousands)*	2002 *Restated*	2003 *Restated*	2004
Tax expense at federal statutory rate	$34,784	$48,254	$60,380
State income tax expense, net of federal income tax benefit	2,701	4,929	4,946
Foreign tax rate difference	(1,224)	(1,036)	(1,379)
Other	3,493	243	71
	$39,754	$52,390	$64,018

Significant components of the Company's deferred tax assets and liabilities are as follows:

December 31 *(Dollars in thousands)*	2003 *Restated*	2004
Deferred tax assets		
Accrued liabilities	$ 63,291	$ 64,560
Compensation and benefits	30,902	34,763
Accrued insurance	26,254	33,621
Debt issuance costs	10,414	11,144
Tax credit and NOL carryforwards	4,500	—
Other	6,562	7,993
Subtotal	141,923	152,081
Deferred tax liabilities		
Property and equipment	(186,340)	(209,869)
Area license agreements	(41,050)	(41,050)
Other	(5,708)	(4,660)
Subtotal	(233,098)	(255,579)
Net deferred tax liability	$ (91,175)	$(103,498)

Notes to Consolidated Financial Statements

NOTE 18: EARNINGS PER COMMON SHARE

Computations for basic and diluted earnings per common share are presented below:

Years Ended December 31	2002	2003	2004
(In thousands, except per-share data)	*Restated*	*Restated*	
BASIC			
Earnings from continuing operations before cumulative effect of accounting change	$ 59,631	$ 85,478	**$108,497**
Loss on discontinued operations	(19,857)	(13,161)	**(6,854)**
Cumulative effect of accounting change	(28,139)	(10,244)	**(5,137)**
Net earnings	$ 11,635	$ 62,073	**$ 96,506**
Weighted-average common shares outstanding	104,827	106,815	**112,393**
Earnings per common share from continuing operations before cumulative effect of accounting change	$ .57	$ .80	**$ .97**
Loss per common share on discontinued operations	(.19)	(.12)	**(.06)**
Loss per common share on cumulative effect of accounting change	(.27)	(.10)	**(.05)**
Net earnings per common share	$ .11	$ .58	**$ .86**
DILUTED			
Earnings from continuing operations before cumulative effect of accounting change	$ 59,631	$ 85,478	**$108,497**
Add interest on convertible quarterly income debt securities, net of tax – see Note 11	2,191	10,111	**8,446**
Earnings from continuing operations before cumulative effect of accounting change plus assumed conversions	61,822	95,589	**116,943**
Loss on discontinued operations	(19,857)	(13,161)	**(6,854)**
Cumulative effect of accounting change	(28,139)	(10,244)	**(5,137)**
Net earnings plus assumed conversions	$ 13,826	$ 72,184	**$104,952**
Weighted-average common shares outstanding (Basic)	104,827	106,815	**112,393**
Add effects of assumed conversions			
Stock options and restricted stock – see Note 16 (1)	81	1,088	**2,612**
Convertible quarterly income debt securities – see Note 11 (2)	6,503	19,054	**14,423**
Weighted-average common shares outstanding plus shares from assumed conversions (Diluted)	111,411	126,957	**129,428**
Earnings per common share from continuing operations before cumulative effect of accounting change	$ .55	$ .75	**$ .90**
Loss per common share on discontinued operations	(.18)	(.10)	**(.05)**
Loss per common share on cumulative effect of accounting change	(.25)	(.08)	**(.04)**
Net earnings per common share	$ .12	$ .57	**$ .81**

(1) *Stock options for 6,568, 3,043 and 1,465 shares of common stock for the years ended December 31, 2002, 2003 and 2004, respectively, have exercise prices that are greater than the average market prices of the common shares for each respective year. Therefore, these shares have not been included in diluted earnings-per-share calculations as they have an antidilutive effect.*

(2) *The 1995 QUIDS are not assumed converted for the year ended December 31, 2002, as they have an antidilutive effect on earnings per common share. The 1998 QUIDS were converted in 2003 (see Note 11).*

Notes to Consolidated Financial Statements

NOTE 19: OTHER RELATED PARTY TRANSACTIONS

Related Party Loan – In May 2002, a financial-services subsidiary of SEJ made a personal loan of 227.5 million Japanese yen (approximately $1.75 million) to one of the Company's nonemployee directors. The term of the loan, which is secured by certain shares of stock owned by the director, was extended from December 2004 to March 2005. The interest rate on the loan was decreased from 2.6% to 2.05% in December 2004.

NOTE 20: RECENTLY ISSUED ACCOUNTING STANDARDS

In May 2004, the FASB issued FASB Staff Position No.106-2 ("FSP 106-2"), "Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003," (the "Act"). FSP 106-2 supersedes FSP 106-1, which was issued in January 2004 under the same title. The Act concerns prescription drug benefits under Medicare ("Medicare Part D") as well as a federal subsidy to sponsors of retiree healthcare benefit plans that provide a benefit that is at least actuarially equivalent to Medicare Part D. FSP 106-2 applies only to sponsors of defined benefit postretirement health care plans for which (a) the employer has concluded that prescription drug benefits available under the plan are actuarially equivalent to Medicare Part D and thus qualify for the subsidy under the Act and (b) the expected subsidy will offset or reduce the employer's share of the cost of postretirement prescription drug coverage provided by the plan. In general, FSP 106-2 concludes that plan sponsors should follow SFAS No. 106 (see Note 14) in accounting for the effects of the Act. Specifically, the effect of the subsidy on benefits attributable to past service cost should be accounted for as an actuarial experience gain and the effect of the subsidy on future costs should be accounted for as a reduction in service cost. The Company adopted the provisions of FSP 106-2 effective July 1, 2004, but was deferring recognition as allowed pending the issuance of authoritative guidance and its effect, if any, on the Company's financial position, results of operations and financial statement disclosure. On January 21, 2005, the Centers for Medicare and Medicaid Services issued such guidance by releasing final regulations implementing the Act. These regulations, which the Company is currently evaluating, provide new and additional guidance for determining actuarial equivalence. However, based on the current design of its postretirement healthcare benefit plan, the Company believes that it is unlikely that the prescription drug benefits available under its plan will be actuarially equivalent to Medicare Part D, and the Company will therefore not qualify for the subsidy under the Act.

In November 2004, the FASB issued SFAS No. 151, "Inventory Costs." SFAS 151 requires that fixed production costs be allocated to inventory based on the normal capacity of production facilities and that unallocated overheads be recognized as an expense in the periods in which they are incurred. In addition, other items such as abnormal freight, handling costs and amounts of excess spoilage require treatment as current-period charges rather than a portion of the inventory cost. SFAS No. 151 is effective for inventory costs incurred during periods beginning after June 15, 2005. The Company is currently assessing the requirements of the standard, which it will adopt effective January 1, 2006, but it does not believe that its adoption will have a material impact, if any, on its consolidated financial position or results of operations.

In December 2004, the FASB issued SFAS No. 123 (revised 2004), "Share-Based Payment," ("SFAS 123R"), which revises SFAS No. 123, "Accounting for Stock-Based Compensation," and supersedes APB Opinion No. 25, "Accounting for Stock Issued to Employees." SFAS 123R establishes standards for accounting for transactions in which an entity exchanges its equity instruments for goods or services. The primary focus of SFAS 123R is on employee services obtained in share-based payment transactions. SFAS 123R requires that all share-based payments to employees be recognized in the financial statements based on their fair values beginning with the first interim or annual reporting period that begins after June 15, 2005, with early adoption encouraged. The fair value of a share-based payment transaction is to be determined by an option-pricing model as of the grant date of the award. The cost will be recognized over the period during which an employee is required to provide services in exchange for the award.

The implementation guidance of SFAS 123R requires that a company elect a transition method to be used at the date of adoption. The transition methods include both prospective and retrospective options for adopting. Under the retrospective transition options, prior periods may be restated either as of the beginning of the year of adoption or for all periods presented. The prospective method requires that compensation expense be recorded for all unvested awards at the beginning of the first period of adoption of SFAS 123R, while the retrospective methods require that compensation expense for all unvested awards be recorded beginning with the first period restated.

The Company will adopt the provisions of SFAS 123R effective July 1, 2005. It intends to elect the retrospective transition method with all prior periods presented restated to include expense previously calculated under SFAS No. 123 for pro forma footnote disclosures. Based on its preliminary analysis of SFAS No. 123R, the Company anticipates that the after-tax impact of adoption on its earnings from continuing operations for the year ended December 31, 2005, will be an expense of approximately $6.0 million to $7.0 million.

Notes to Consolidated Financial Statements

NOTE 21: SUBSEQUENT EVENT

On February 28, 2005, IY sold to SEJ its interest in both IYG and its independently held shares of the Company's common stock. This transaction between IY and SEJ does not impact the Company. Following the transaction, the Company is 73.77% owned by IYG and SEJ (see Note 1).

NOTE 22: QUARTERLY FINANCIAL DATA (UNAUDITED)

The summarized quarterly financial data for 2003 and 2004 below has been restated for the application of SFAS No. 144.

Year Ended December 31, 2003	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Year
(Dollars in millions, except per-share data)	*Restated*	*Restated*	*Restated*	*Restated*	*Restated*
Merchandise sales	$1,640	$1,871	$2,016	$1,848	$ 7,375
Gasoline sales	812	822	893	828	3,355
Net sales	2,452	2,693	2,909	2,676	10,730
Merchandise gross profit	567	666	715	651	2,599
Gasoline gross profit	67	92	90	76	325
Gross profit	634	758	805	727	2,924
Income tax expense	4	24	21	3	52
Earnings from continuing operations before cumulative effect of accounting change	6	40	34	5	85
Loss on discontinued operations	(2)	(1)	1	(11)	(13)
Cumulative effect of accounting change	—	—	(10)	—	(10)
Net earnings (loss)	4	39	25	(6)	62
Net earnings per common share from continuing operations before cumulative effect of accounting change					
Basic	.06	.38	.33	.04	.80
Diluted	.06	.34	.29	.04	.75
Net earnings (loss) per common share					
Basic	.04	.37	.24	(.06)	.58
Diluted	.04	.33	.22	(.06)	.57

The first quarter's earnings from continuing operations include the receipt of life insurance proceeds of $2.2 million (net of deferred taxes of $1.4 million). The third quarter includes a cumulative effect of accounting change expense of $10.2 million (net of deferred tax benefit of $6.6 million) from the adoption of FIN 46 (see Notes 1, 10 and 13). In addition, the third quarter's earnings from continuing operations includes (a) a gain of $6.5 million (net of deferred taxes of $4.0 million) from the retirement of the Company's Debentures (see Note 10), (b) an expense of $6.2 million (net of deferred tax benefit of $3.7 million) from foreign currency conversion and (c) $4.3 million (net of deferred tax benefit of $2.7 million) to reflect the Company's best estimate of the fair value of its California remediation receivable (see Note 15). The fourth quarter's loss on discontinued operations includes a charge of $8.9 million (net of deferred tax benefit of $5.5 million) related to store closings (see Note 6).

As discussed in Note 1, the Company revised its lease accounting and restated its previously issued financial statements to adjust the amortization expense of certain of its leasehold improvements to be the shorter of the economic useful life or the lease term as defined by SFAS No. 13. These restatements to OSG&A for additional depreciation expense of $812,000, $815,000, $815,000 and $817,000 resulted in decreases of $495,000, $514,000, $505,000 and $506,000 in earnings from continuing operations before cumulative effect of accounting change for the respective quarters. Diluted EPS decreased $.01 in both the first and fourth quarters as a result of the restatements.

Notes to Consolidated Financial Statements

Year Ended December 31, 2004	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Year
(Dollars in millions, except per-share data)	*Restated*	*Restated*	*Restated*		
Merchandise sales	$1,784	$2,026	$2,123	$1,960	$ 7,893
Gasoline sales	924	1,087	1,096	1,121	4,228
Net sales	2,708	3,113	3,219	3,081	12,121
Merchandise gross profit	630	722	769	693	2,814
Gasoline gross profit	71	91	83	97	342
Gross profit	701	813	852	790	3,156
Income tax expense	7	29	26	2	64
Earnings from continuing operations before cumulative effect of accounting change	10	48	45	6	109
Loss on discontinued operations	(1)	(1)	(1)	(4)	(7)
Cumulative effect of accounting change	(5)	—	—	—	(5)
Net earnings	4	47	44	2	97
Net earnings per common share from continuing operations before cumulative effect of accounting change					
Basic	.09	.42	.40	.05	.97
Diluted	.09	.38	.37	.05	.90
Net earnings per common share					
Basic	.04	.42	.39	.01	.86
Diluted	.04	.38	.36	.01	.81

Included in the first quarter is a cumulative effect charge of $5.1 million (net of deferred tax benefit of $3.3 million) resulting from the Company's adoption of FIN 46R (see Notes 1 and 2). The first quarter also includes income of $3.8 million (net of deferred taxes of $2.4 million) related to the mutual termination of the Company's Vcom check-cashing relationship. The second quarter includes an after-tax charge of $4.6 million related to the early retirement of the Cityplace Term Loan (see Note 10). In addition, the second quarter's earnings from continuing operations include a foreign currency conversion gain of $3.3 million (net of deferred taxes of $2.1 million) and income of $2.9 million (net of deferred taxes of $1.7 million) related to the mutual termination of the Company's e-shopping relationship. Included in the fourth quarter is a foreign currency conversion loss of $5.6 million (net of deferred tax benefit of $3.6 million).

As discussed in Note 1, the Company revised its lease accounting and restated its previously issued financial statements to adjust the amortization expense of certain of its leasehold improvements to be the shorter of the economic useful life or the lease term as defined by SFAS No. 13. These restatements to OSG&A for additional depreciation expense of $1.2 million in each of the first three quarters resulted in decreases of $725,000, $748,000 and $703,000 in earnings from continuing operations before cumulative effect of accounting change in the respective quarters. Diluted EPS decreased $.01 in the second quarter as a result of the restatements.

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders of 7-Eleven, Inc.:

We have completed an integrated audit of 7-Eleven, Inc.'s 2004 consolidated financial statements and of its internal control over financial reporting as of December 31, 2004 and audits of its 2003 and 2002 consolidated financial statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Our opinions, based on our audits, are presented below.

Consolidated financial statements

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of earnings, shareholders' equity and cash flows present fairly, in all material respects, the financial position of 7-Eleven, Inc. and its subsidiaries at December 31, 2004 and 2003, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2004 in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit of financial statements includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Notes 1, 2, and 9 to the consolidated financial statements, the Company adopted the provisions of SFAS No. 143, "Accounting for Asset Retirement Obligations," in 2002, and the provisions of SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities," and FASB Interpretation No. 46, "Consolidation of Variable Interest Entities —an Interpretation of ARB No. 51," in 2003, and FASB Interpretation No. 46 (Revised), "Consolidation of Variable Interest Entities—an Interpretation of ARB No. 51," in 2004.

As discussed in Note 1 to the consolidated financial statements, the Company has restated its 2003 and 2002 financial statements.

Internal control over financial reporting

Also, in our opinion, management's assessment, included in Management Report on Internal Control Over Financial Reporting, that the Company maintained effective internal control over financial reporting as of December 31, 2004 based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), is fairly stated, in all material respects, based on those criteria. Furthermore, in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2004 based on criteria established in Internal Control—Integrated Framework issued by the COSO. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express opinions on management's assessment and on the effectiveness of the Company's internal control

over financial reporting based on our audit. We conducted our audit of internal control over financial reporting in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. An audit of internal control over financial reporting includes obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we consider necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

As described in Management Report on Internal Control Over Financial Reporting, management has excluded the operations relating to the ATM network from its assessment of internal control over financial reporting as of December 31, 2004 because it was acquired by the Company in a purchase business combination during 2004. We have also excluded the operations relating to the ATM network from our audit of internal control over financial reporting. The ATM network is a consolidated business whose total assets and total revenues represent 1.7% and 0.3%, respectively, of the related consolidated financial statement amounts as of and for the year ended December 31, 2004.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Dallas, Texas
March 15, 2005

Management Report on Internal Control Over Financial Reporting

The management of 7-Eleven, Inc. (7-Eleven) is responsible for establishing and maintaining adequate internal control over financial reporting. A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

7-Eleven management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2004. In making this assessment, it used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in *Internal Control—Integrated Framework*. Based on our assessment we have concluded that, as of December 31, 2004, the Company's internal control over financial reporting is effective based on those criteria.

As permitted by SEC guidance, management has excluded the operations relating to the ATM network the Company acquired in a purchase business combination during the third quarter of 2004 from its assessment of internal control over financial reporting as of December 31, 2004. The ATM network is the network of ATMs located in our stores whose total assets and total revenues represent 1.7% and 0.3%, respectively, of the related consolidated financial statement amounts as of and for the year ended December 31, 2004.

Our management's assessment of the effectiveness of the Company's internal control over financial reporting as of December 31, 2004, has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report which appears herein.

Management's Consideration of the Restatement

In coming to the conclusion that our internal control over financial reporting was effective as of December 31, 2004, our management considered, among other things, the control deficiency related to periodic review of the application of generally accepted accounting principles, which resulted in the need to restate our previously issued financial statements as disclosed in "Note 1" to the accompanying consolidated financial statements included in this Form 10-K. We reviewed and analyzed the Securities and Exchange Commission's Staff Accounting Bulletin ("SAB") No. 99, "Materiality," Accounting Principles Board Opinion No. 28, "Interim Financial Reporting," paragraph 29 and SAB Topic 5 F, "Accounting Changes Not Retroactively Applied Due to Immateriality," and took into consideration (i) that the restatement adjustments did not have a material impact on the financial statements of prior interim or annual periods taken as a whole; (ii) that the cumulative impact of the restatement adjustments on shareholders' equity was not material on the financial statements of prior interim or annual periods; and (iii) that we decided to restate our previously issued financial statements solely because the cumulative impact of the error, if recorded in the current period, would have been material to the current year's reported net earnings. Based on our review and analysis, our management concluded that the control deficiency that resulted in the restatement of the prior period financial statements was not in itself a material weakness and that when aggregated with other deficiencies did not constitute a material weakness.

James W. Keyes

James W. Keyes
President and
Chief Executive Officer

Edw. W. Moneypenny

Edward W. Moneypenny
Senior Vice President
Chief Financial Officer

Directors and Officers

Directors

Toshifumi Suzuki
Chairman of the Board

Yoshitami Arai
Director

Masaaki Asakura
Director

Jay W. Chai
Director

R. Randolph Devening
Director

Gary J. Fernandes
Director

Masaaki Kamata
Director

James W. Keyes
Director

Kazuo Otsuka
Director

Lewis E. Platt
Director

Officers

James W. Keyes
President and Chief Executive Officer

Gary R. Rose
Executive Vice President, Operations

Bryan F. Smith, Jr.
Executive Vice President,
General Counsel and Secretary

Masaaki Asakura
Senior Vice President

Edward W. Moneypenny
Senior Vice President and
Chief Financial Officer

David M. Podeschi
Senior Vice President, Merchandising

Michael C. Blair
Vice President, Mid-Pacific Division

Robert J. Cozens
Vice President, Northeast Division

Cynthia L. Davis
Vice President, Demand Chain

Frank S. Gambina
Vice President, Southwest Division

John W. Harris
Vice President, Florida Division

David Huey
Vice President, North Pacific Division

Sylvester J. Johnson
Vice President and Controller

Gary C. Lockhart
Vice President, Gasoline Supply

P. Keith Morrow
Vice President and
Chief Information Officer

Stanley W. Reynolds
Vice President and Treasurer

Jeffrey A. Schenck
Vice President, National Franchise

Nancy A. Smith
Vice President, Great Lakes Division

Joseph M. Strong
Vice President, Chesapeake Division

Donald E. Thomas
Vice President, Central Division

Rick D. Updyke
Vice President
Corporate Business Development

Shareholder Information

Corporate Headquarters

7-Eleven, Inc.
2711 North Haskell Avenue
Dallas, TX 75204-2906
(214) 828-7011
E-mail: invest @7-11.com

Stock Exchange Listing

7-Eleven's common stock is listed on the New York Stock Exchange. The symbol is "**SE**".

NYSE Corporate Governance Matters

7-Eleven, Inc. has included as exhibits to its Annual Report on Form 10-K for its 2004 fiscal year, filed with the SEC on March 15, 2005, certificates of 7-Eleven's chief executive officer and chief financial officer certifying the quality of the company's public disclosure. In addition, as required by the NYSE's Corporate Governance Rules, 7-Eleven's Chief Executive Officer submitted to the NYSE, within 30 days following 7-Eleven's 2004 Annual Meeting of Shareholders, a certificate verifying that he was not aware of any violations by 7-Eleven of any NYSE corporate governance listing standards.

Shareholder Information

Questions about stock ownership, changes of address, etc. should be directed to 7-Eleven's transfer agent and registrar:

Computershare Investor Services, LLC

2 North La Salle
Chicago, IL 60602
(312) 360-5464 or toll free (877) 360-5464
www.computershare.com

Computershare Investor Services Program features dividend reinvestment, optional cash investments, automatic stock purchase and safekeeping of stock certificates.

Annual Meeting

7-Eleven's annual meeting will be held at 9:30 a.m. Central Time on Wednesday, April 27, 2005, at:

7-Eleven, Inc.

Cityplace Conference Center
2711 North Haskell Avenue
Dallas, TX 75204-2906

Other Information

Requests for the Form 10-K for the year ended December 31, 2004, and quarterly financial information should be addressed to the Investor Relations department at the above address, by telephone at (214) 828-7333, or by email at invest@7-11.com. Investors may receive information regularly from the Company via e-mail or by fax by requesting to be included on the company's mailing list.

Web Address

www.7-Eleven.com

Independent Auditors

PricewaterhouseCoopers LLP
Dallas, Texas

Common Stock

The table below shows the price range for the Company's common stock during each quarter of 2003 and 2004 and the closing price on the last trading day of each quarter.

Quarters	High	Low	Close
2004			
First	$19.50	$13.65	$15.17
Second	18.50	15.10	17.85
Third	20.64	15.80	19.98
Fourth	24.20	19.95	23.95
2003			
First	$ 8.30	$ 6.50	$ 6.96
Second	10.99	6.99	10.55
Third	14.63	10.20	13.73
Fourth	16.75	13.94	16.05

7-Eleven Around the World

Operated by 7-Eleven, Inc.

United States	7-Eleven Stores
Arizona	83
California	1,219
Colorado	229
Connecticut	53
Delaware	26
District of Columbia	22
Florida	542
Idaho	11
Illinois	182
Indiana	33
Kansas	12
Maine	13
Maryland	305
Massachusetts	114
Michigan	136
Missouri	74
Nevada	197
New Hampshire	27
New Jersey	217
New York	257
North Carolina	7
Ohio	13
Oregon	128
Pennsylvania	168
Rhode Island	21
Texas	271
Utah	102
Vermont	4
Virginia	614
Washington	209
West Virginia	22
United States Subtotal	**5,311**

Canada	7-Eleven Stores
Alberta	149
British Columbia	145
Manitoba	49
Ontario	102
Saskatchewan	43
Canada Subtotal	**488**

All numbers as of December 31, 2004

Licensed or Operated by Affiliates

Worldwide	7-Eleven Stores
Australia	345
China (808)	
Beijing	10
Guangdong	188
Hong Kong	610
Denmark	46
Guam	8
Japan	10,615
Malaysia	460
Mexico	491
Norway	78
Philippines	257
Puerto Rico	12
Singapore	261
South Korea	1,179
Sweden	74
Taiwan	3,680
Thailand	2,861
Turkey	65
United States	477
Subtotal	**21,717**

7-Eleven Worldwide	**27,516**

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